

CIT GROUP INC  
Form 10-K  
February 20, 2015

**Table of Contents**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 2014

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-31369

**CIT GROUP INC.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

(State or other jurisdiction of incorporation or organization)

**65-1051192**

(IRS Employer Identification No.)

**11 West 42nd Street, New York, New York**

(Address of Registrant's principal executive offices)

**10036**

(Zip Code)

**(212) 461-5200**

Registrant's telephone number including area code:

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**

Common Stock, par value \$0.01 per share

**Name of each exchange on which registered**

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its Corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

## Edgar Filing: CIT GROUP INC - Form 10-K

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this Chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. | |

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one)

Large accelerated filer  Accelerated filer | |

Non-accelerated filer | | Smaller reporting company | |

At February 6, 2015, there were 175,995,263 shares of CIT's common stock, par value \$0.01 per share, outstanding.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes | | No

The aggregate market value of voting common stock held by non-affiliates of the registrant, based on the New York Stock Exchange Composite Transaction closing price of Common Stock (\$45.76 per share, 184,891,451 shares of common stock outstanding), which occurred on June 30, 2014, was \$8,460,632,798. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates. Such determination shall not be deemed an admission that such officers and directors are, in fact, affiliates of the registrant.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No | |

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to the 2015 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

### Table of Contents

CIT ANNUAL REPORT 2014 1

---

## CONTENTS

Part One		
Item 1.	Business Overview	2
	Where You Can Find More Information	16
Item 1A.	Risk Factors	19
Item 1B.	Unresolved Staff Comments	27
Item 2.	Properties	27
Item 3.	Legal Proceedings	27
Item 4.	Mine Safety Disclosures	27
Part Two		
Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Selected Financial Data	30
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 7A.	Quantitative and Qualitative Disclosure about Market Risk	34

## Edgar Filing: CIT GROUP INC - Form 10-K

Item 8.	Financial Statements and Supplementary Data	86
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	149
Item 9A.	Controls and Procedures	149
Item 9B.	Other Information	149
Part Three		
Item 10.	Directors, Executive Officers and Corporate Governance	150
Item 11.	Executive Compensation	150
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	150
Item 13.	Certain Relationships and Related Transactions, and Director Independence	150
Item 14.	Principal Accountant Fees and Services	150
Part Four		
Item 15.	Exhibits and Financial Statement Schedules	151
Signatures		156

### Table of Contents

---

### Table of Contents

## 2 CIT ANNUAL REPORT 2014

### PART ONE

---

## Item 1: Business Overview

### BUSINESS DESCRIPTION

CIT Group Inc., together with its subsidiaries (“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 in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. We had over \$35 billion of financing and leasing assets at December 31, 2014. CIT became a bank holding company (“BHC”) in December 2008 and a financial holding company (“FHC”) in July 2013.

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 (“BHC Act”). CIT Bank (the “Bank”), a wholly-owned subsidiary, is a Utah state-chartered bank located in Salt Lake City, UT that offers commercial financing and leasing products, as well as a suite of savings options, and is subject to regulation by the Federal Depository Insurance Corporation (“FDIC”) and the Utah Department of Financial Institutions (“UDFI”). As of December 31, 2014, over 48% of CIT’s financing and leasing assets were in the Bank and essentially all new U.S. business volume is being originated by the Bank.

Each business has industry alignment and focuses on specific sectors, products and markets, with portfolios diversified by client and geography. Our principal product and service offerings include:

### Products and Services

- Account receivables collection
- Acquisition and expansion financing
- Asset management and servicing
- Asset-based loans
- Credit protection
- Debt restructuring
- Enterprise value and cash flow loans
- Factoring services
- Financial risk management
- Import and export financing
- Insurance services
- Equipment leases

## Edgar Filing: CIT GROUP INC - Form 10-K

- Debt underwriting and syndication
- Debtor-in-possession / turnaround financing
- Deposits
- Letters of credit / trade acceptances
- Mergers and acquisition advisory services ("M&A")
- Secured lines of credit

We source business through marketing efforts directly to borrowers, lessees, manufacturers, vendors and distributors, and through referral sources and other intermediaries. We also buy participations in syndications of loans and lines of credit and periodically purchase finance receivables on a whole-loan basis.

We generate revenue by earning interest on loans and investments, collecting rentals on equipment we lease, and earning commissions, fees and other income for services we provide. We syndicate and sell certain finance receivables and equipment to leverage our origination capabilities, reduce concentrations and manage our balance sheet.

We set underwriting standards for each division and employ portfolio risk management models to achieve desired portfolio demographics. Our collection and servicing operations are organized by business and geography in order to provide efficient client interfaces and uniform customer experiences.

### PENDING ACQUISITION

On July 22, 2014, we announced that we had entered into a definitive agreement and plan of merger to acquire IMB Holdco LLC, the parent company of OneWest Bank, N.A. ("OneWest Bank") for approximately \$3.4 billion (the "OneWest Transaction"), subject to the terms and conditions set forth in the merger agreement. The consideration paid will be based upon certain capital levels derived from OneWest Bank's audited June 30, 2014 balance sheet, and is expected to approximate \$2 billion in cash and 31.3 million shares of CIT Group Inc. common stock, which had a value of \$1.4 billion at the time of the announcement, but will vary depending upon the share price at the time of closing. As part of the OneWest Transaction, CIT Bank, CIT's banking subsidiary, will merge with and into OneWest Bank under the "CIT Bank, National Association" name. IMB Holdco is regulated by the FRB and OneWest Bank is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury ("OCC"). The OneWest Transaction is subject to certain customary closing conditions and regulatory approval by the FRB and the OCC, but not a shareholder vote. On February 6, 2015, the FRB and the OCC announced a joint public meeting on the OneWest Transaction, which will be held on February 26, 2015 at the Los Angeles branch of the Federal Reserve Bank of San Francisco.

CIT Group Inc. will continue to be led by John A. Thain, Chairman and Chief Executive Officer. Following the close of the transaction, Steven T. Mnuchin, Chairman of IMB Holdco LLC, will join CIT Group Inc. as Vice Chairman and will also become a member of its Board of Directors. Alan Frank, an independent director from OneWest Bank will also join the CIT Board, increasing its size from 13 to 15 members. Joseph Otting, President and Chief Executive Officer of OneWest Bank, will join CIT as Co-President of CIT and CEO of CIT Bank, N.A.

Following the closing, based on current definitions and requirements for a systematically important financial institution ("SIFI"), CIT will become subject to the enhanced regulatory standards applicable to bank holding companies at the end of the quarter in which the OneWest Transaction closes, including but not limited to submitting an annual capital plan, undergoing an annual supervisory stress test and two company-run stress tests, enhanced requirements for overall risk management, submitting a resolution plan, implementation of an enhanced compliance program under the Volcker Rule, and payment of additional FRB assessments. The date on which CIT must comply with each SIFI requirement will vary depending on the terms of the particular regulation and timing of deal closing.

---

### Table of Contents

CIT ANNUAL REPORT 2014 3

---

### BUSINESS SEGMENTS

## Edgar Filing: CIT GROUP INC - Form 10-K

In December 2013, we announced organization changes that became effective January 1, 2014. In conjunction with management's plans to (i) realign and simplify its businesses and organizational structure, (ii) streamline and consolidate certain business processes to achieve greater operating efficiencies, and (iii) leverage CIT's operational capabilities for the benefit of its clients and customers, CIT will manage its business and report its financial results in three operating segments: Transportation & International Finance ("TIF"), North American Commercial Finance ("NACF"), and Non-Strategic Portfolios ("NSP") and a fourth non-operating segment, Corporate and Other. See *Note 25 — Business Segment Information in Item 8 Financial Statements and Supplementary Data* for additional information relating to the reorganization.

SEGMENT	DIVISIONS	MARKETS AND SERVICES
Transportation & International Finance	<ul style="list-style-type: none"> <li>• Aerospace</li> <li>• Rail</li> <li>• Maritime Finance</li> <li>• International Finance</li> </ul>	<p>Large ticket equipment leasing and secured financing to select transportation industries.</p> <p>Equipment finance and secured lending in select international geographies.</p>
North American Commercial Finance	<ul style="list-style-type: none"> <li>• Commercial Services</li> <li>• Corporate Finance</li> <li>• Equipment Finance</li> <li>• Real Estate Finance</li> </ul>	<p>Factoring, receivables management products and secured financing to retail supply chain companies.</p> <p>Lending, leasing and other financial and advisory services to small and middle-market companies across select industries.</p>
Non-Strategic Portfolios		Consists of portfolios that we do not consider strategic.
Corporate and Other		Consists of certain items not allocated to operating segments.

Financial information about our segments and our geographic areas of operation are located in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data (Note 25 — Business Segment Information)*.

### Item 1: Business Overview

## Table of Contents

### 4 CIT ANNUAL REPORT 2014

#### TRANSPORTATION & INTERNATIONAL FINANCE

TIF is a leading provider of leasing and financing solutions to operators and suppliers in the global aviation and railcar industries, and has a growing maritime business. TIF consists of four divisions: aerospace (commercial air and business air), rail, maritime finance, and international finance, the latter of which includes equipment financing, secured lending and leasing in China and the U.K. The U.K. Equipment Financing Portfolio was included in assets held for sale at December 31, 2014. Revenues generated by TIF primarily include rents collected on leased assets, interest on loans, fees, and gains from assets sold. Aerospace and Rail account for the vast majority of the segment's assets, revenues and earnings. Maritime Finance was launched as a distinct business in the fourth quarter of 2012, although CIT had periodically financed assets within the sector on a small scale.

We achieved leadership positions in transportation finance by leveraging our deep industry experience and core strengths in technical asset management, customer relationship management, and credit analysis. We have extensive experience managing equipment over its full life cycle, including purchasing, leasing, remarketing and selling new and used equipment. TIF is a global business, with aircraft around the world, railcar leasing operations throughout North America and Europe and a growing loan portfolio.

#### *Aerospace*

## Edgar Filing: CIT GROUP INC - Form 10-K

*Commercial Air* provides aircraft leasing, lending, asset management, and advisory services. The division's primary clients include global and regional airlines around the world. Offices are located in the U.S., Europe and Asia. As of December 31, 2014, our commercial aerospace financing and leasing portfolio consists of 350 aircraft, which are placed with about 100 clients in approximately 50 countries.

*Business Air* offers financing and leasing programs for corporate and private owners of business jets. Serving clients around the world, we provide financing that is tailored to our clients unique business requirements. Products include term loans, leases, pre-delivery financing, fractional share financing and vendor / manufacturer financing.

*Rail* offers customized leasing and financing solutions and a highly efficient fleet of railcars and locomotives to railroads and shippers throughout North America and Europe. We expanded our operations to Europe during 2014 through an acquisition. We serve over 650 customers, including all of the U.S. and Canadian Class I railroads (railroads with annual revenues of at least \$250 million), other railroads and non-rail companies, such as shippers and power and energy companies. Our operating lease fleet consists of approximately 120,000 railcars and 390 locomotives. Railcar types include covered hopper cars used to ship grain and agricultural products, plastic pellets, sand, and cement, tank cars for energy products and chemicals, gondolas for coal, steel coil and mill service products, open hopper cars for coal and aggregates, boxcars for paper and auto parts and centerbeams and flat cars for lumber.

*Maritime Finance* offers senior secured loans, sale-leasebacks and bareboat charters to owners and operators of oceangoing cargo vessels, including tankers, bulkers, container ships, car carriers and offshore vessels and drilling rigs.

*International Finance* offers equipment financing, secured lending and leasing to small and middle-market businesses in China and the U.K., the latter of which was included in assets held for sale at December 31, 2014.

The primary asset type held by TIF is equipment (predominantly commercial aircraft and railcars) purchased and leased to commercial end-users. The typical structure for leasing of large ticket transportation assets is an operating lease. TIF also has a loan portfolio consisting primarily of senior, secured loans. The primary source of revenue for TIF is rent collected on leased assets and to a lesser extent interest on loans, gains from assets sold and fees for services provided.

The primary risks for TIF are asset risk (resulting from ownership of the equipment on operating lease) and credit risk. Asset risk arises from fluctuations in supply and demand for the underlying equipment that is leased. TIF invests in long-lived equipment; commercial aircraft have economic useful lives of approximately 20-25 years and railcars/locomotives have economic useful lives of approximately 35-50 years. This equipment is then leased to commercial end-users with lease terms of approximately 3-12 years. CIT is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

Asset risk is generally recognized through changes to lease income streams from fluctuations in lease rates and/or utilization. Changes to lease income occur when the existing lease contract expires, the asset comes off lease, and the business seeks to enter a new lease agreement. Asset risk may also change depreciation, resulting from changes in the residual value of the operating lease asset or through impairment of the asset carrying value, which can occur at any time during the life of the asset.

Credit risk in the leased equipment portfolio results from the potential default of lessees, possibly driven by obligor specific or industry-wide conditions, and is economically less significant than asset risk for TIF, because in the operating lease business, there is no extension of credit to the obligor. Instead, the lessor deploys a portion of the useful life of the asset. Credit losses manifest through multiple parts of the income statement including loss of lease/rental income due to missed payments, time off lease, or lower rental payments than the existing contract either due to a restructuring or re-leasing of the asset to another obligor as well as higher expenses due to, for example, repossession costs to recover, refurbish, and re-lease assets. Credit risk associated with loans relates to the ability of the borrower to repay its loan and the Company's ability to realize the value of the collateral underlying the loan should the borrower default on its obligations.

See "*Concentrations*" section of *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Note 21 — Commitments of Item 8. Financial Statements and Supplementary Data* for further discussion of our aerospace and rail portfolios.

### NORTH AMERICAN COMMERCIAL FINANCE

The NACF segment consists of four divisions: Commercial Services, Corporate Finance, Equipment Finance, and Real Estate Finance. Revenue is generated from interest earned on loans,

---

**Table of Contents**

CIT ANNUAL REPORT 2014 5

rents on leases, fees and other revenue from lending activities and capital markets transactions, and commissions earned on factoring activities.

*Commercial Services* provides factoring, receivable management products, and secured financing to businesses (our clients, generally manufacturers or importers of goods) that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Factoring entails the assumption of credit risk with respect to trade accounts receivable arising from the sale of goods by our clients to their customers (generally retailers) that have been factored (i.e. sold or assigned to the factor). Although primarily U.S.-based, Commercial Services also conducts business with clients and their customers internationally.

*Corporate Finance* provides a range of financing options and offers advisory services to small and medium size companies. Its core products include both loan and fee-based products. Loans offered are primarily senior secured loans collateralized by accounts receivable, inventory, machinery & equipment and/or intangibles that are often used for working capital, plant expansion, acquisitions or recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. We provide financing to customers in a wide range of industries, including Commercial & Industrial, Communications, Media, & Entertainment, Energy, and Healthcare.

*Equipment Finance* provides leasing and equipment loan solutions to small businesses and middle market companies in a wide range of industries on both a private label and direct basis. We provide financing solutions for our borrowers and lessees, and assist manufacturers and distributors in growing sales, profitability and customer loyalty by providing customized, value-added finance solutions to their commercial clients. Our LendEdge platform allows small businesses to access financing through a highly automated credit approval, documentation and funding process. We offer loans and both capital and operating leases.

*Real Estate Finance* provides senior secured commercial real estate loans to developers and other commercial real estate professionals. We focus on stable, cash flowing properties and originate construction loans to highly experienced and well capitalized developers.

Key risks faced by NACF's Corporate Finance, Equipment Finance and Real Estate Finance divisions are credit risk, business risk and asset risk. Credit risks associated with secured financings relate to the ability of the borrower to repay its loan and the value of the collateral underlying the loan should the borrower default on its obligations.

Business risks relate to the demand for NACF's services that is broadly affected by the level of economic growth and is more specifically affected by the level of economic activity in CIT's target industries. If demand for CIT's products and services declines, then new business volume originated by NACF will decline. Likewise, changes in supply and demand of CIT's products and services also affect the pricing CIT can command from the market. Additionally, new business volume in Equipment Finance is influenced by CIT's ability to maintain and develop relationships with its vendor partners. With regard to pricing, NACF is subject to potential threats from competitor activity or disintermediation by vendor partners and other referral sources, which could negatively affect CIT's margins. NACF is also exposed to business risk related to its syndication activity. Under adverse market circumstances, CIT would be exposed to risk arising from the inability to sell loans to other lenders, resulting in lower fee income and higher than expected credit exposure to certain borrowers.

Another risk to which NACF is exposed to in Equipment Finance is asset risk, namely that at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

The products and services provided by Commercial Services consist of two types of credit risk: customer and client. A client (typically a manufacturer or importer of goods) is the counterparty to any factoring agreement, financing agreement, or receivables purchasing agreement that has been entered into with Commercial Services. A customer (typically a wholesaler or retailer) is the

## Edgar Filing: CIT GROUP INC - Form 10-K

account debtor and obligor on trade accounts receivable that have been factored with and assigned to the factor.

The largest risk for Commercial Services is customer credit risk in factoring transactions. Customer risk relates to the financial inability of a customer to pay on undisputed trade accounts receivable due from such customer to the factor. While smaller than customer credit exposure, there is also client credit risk in providing cash advances to factoring clients. Client risk relates to a decline in the credit worthiness of a borrowing client, their consequent inability to repay their loan and the possible insufficiency of the underlying collateral (including the aforementioned customer accounts receivable) to cover any loan repayment shortfall. At December 31, 2014, client credit risk accounted for less than 10% of total Commercial Services credit exposure while customer credit risk accounted for the remainder.

Commercial Services is also subject to a variety of business risks including operational, due to the high volume of transactions, as well as business risks related to competitive pressures from other banks, boutique factors, and credit insurers. These pressures create risk of reduced pricing and factoring volume for CIT. In addition, client de-factoring can occur if retail credit conditions are benign for a long period and clients no longer demand factoring services for credit protection.

### NON-STRATEGIC PORTFOLIOS

NSP consisted of portfolios that we no longer consider strategic. At December 31, 2014 these consisted primarily of equipment financing portfolios in Mexico and Brazil. We have separate definitive agreements to sell these businesses and anticipate closing the Mexico transaction in the 2015 first quarter and Brazil in the second half of 2015.

### CORPORATE AND OTHER

Certain items are not allocated to operating segments and are included in Corporate and Other, including unallocated 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, certain legal costs and unallocated expenses (Operating Expenses). Corporate and Other also retains net gains or losses on debt extinguishments.

**Item 1: Business Overview**

---

### Table of Contents

**6** CIT ANNUAL REPORT 2014

---

## CIT BANK

CIT Bank (Member FDIC) is a wholly-owned subsidiary of CIT Group Inc. that is regulated by the FDIC and the UDFI. Since its founding in 2000, the Bank has expanded its assets, deposits and product offerings. The Bank continued to grow in 2014, with increased deposits and expanded business activities, which included the acquisition of Direct Capital, a provider of financing to small and mid-sized businesses.

The Bank raises deposits from retail and institutional investors primarily through its online bank ([www.BankOnCIT.com](http://www.BankOnCIT.com)) and through broker channels in order to fund its lending and leasing activities. Its existing suite of deposit products includes Certificates of Deposit, Savings Accounts, and Individual Retirement Accounts.

The Bank's assets are primarily commercial loans and operating lease equipment, which are reported in the respective commercial segment (i.e. NACF and TIF). The Bank's growing operating lease portfolio primarily consists of railcars, with some aircraft added in 2014.

At year-end, CIT Bank remained well capitalized, maintaining Tier 1 and Total capital ratios well above required levels.

---

## DISCONTINUED OPERATION



## Edgar Filing: CIT GROUP INC - Form 10-K

On April 25, 2014, the Company completed the sale of its student lending business resulting in it being reported as a discontinued operation. The business had previously been included in the Non-Strategic Portfolios segment and consisted of a portfolio of U.S. Government-guaranteed student loans. The portfolio was in run-off and had been transferred to assets held for sale ("AHFS") at the end of 2013. The Company had ceased offering private student loans in 2007 and government-guaranteed student loans in 2008.

See *Note 2 — Acquisition and Disposition Activities of Item 8. Financial Statements and Supplementary Data* for further information.

---

### EMPLOYEES

CIT employed approximately 3,360 people at December 31, 2014. Based upon the location of the Company's legal entities, approximately 2,680 were employed in the U.S. entities and 680 in non-U.S. entities.

---

### COMPETITION

The markets in which we operate in are competitive, based on factors that vary by product, customer, and geographic region. Our competitors include global and domestic commercial banks, regional and community banks, captive finance companies, and leasing companies. In most of our business segments, we have a few large competitors that have significant market share and many smaller niche competitors.

Many of our competitors are large companies with substantial financial, technological, and marketing resources. Our customer value proposition is primarily based on financing terms, structure, and client service. From time to time, due to highly competitive markets, we may (i) lose market share if we are unwilling to match product structure, pricing, or terms of our competitors that do not meet our credit standards or return requirements or (ii) receive lower returns or incur higher credit losses if we match our competitors' product structure, pricing, or terms.

To take advantage of opportunities, we must continue to compete successfully with financial institutions that are larger and have better access to low cost funding. As a result, we tend not to compete on price, but rather on industry experience, asset and equipment knowledge, and customer service. The regulatory environment in which we and/or our customers operate also affects our competitive position.

---

### REGULATION

We are regulated by federal and state banking laws, regulations and policies. Such laws and regulations are intended primarily for the protection of depositors, customers and the federal deposit insurance fund ("DIF"), as well as to minimize risk to the banking system as a whole, and not for the protection of our shareholders or non-depository creditors. Bank regulatory agencies have broad examination and enforcement power over bank holding companies ("BHCs") and their subsidiaries, including the power to impose substantial fines, limit dividends, restrict operations and acquisitions, and require divestitures. BHCs and banks, as well as subsidiaries of both, are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound. CIT is a BHC, and elected to become a FHC, subject to regulation and examination by the FRB and the FRBNY under the

---

### Table of Contents

CIT ANNUAL REPORT 2014 7

BHC Act. As an FHC, CIT is subject to certain limitations on our activities, transactions with affiliates, and payment of dividends, and certain standards for capital and liquidity, safety and soundness, and incentive compensation, among other matters. Under the system of "functional regulation" established under the BHC Act, the FRB supervises CIT, including all of its non-bank subsidiaries, as an "umbrella regulator" of the consolidated organization. CIT Bank is chartered as a state bank by the UDFI and is not a member bank of the Federal Reserve System. CIT's principal regulator is the FRB and CIT Bank's principal regulators are the FDIC and the

## Edgar Filing: CIT GROUP INC - Form 10-K

UDFI. Both CIT and CIT Bank are regulated by the Consumer Financial Protection Bureau (“CFPB”), which regulates consumer financial products. Upon completion of the merger of CIT Bank with and into OneWest Bank, the resulting bank under the CIT Bank NA name, will be a national bank and its principal regulator will be the OCC.

Certain of our subsidiaries are subject to regulation by other domestic and foreign governmental agencies. CIT Capital Securities L.L.C., a Delaware limited liability company, is a broker-dealer licensed by the Financial Industry Regulatory Authority (“FINRA”), and is subject to regulation by FINRA and the Securities and Exchange Commission (“SEC”). CIT also holds a 16% interest in CIT Group Securities (Canada) Inc., a Canadian broker dealer, which is licensed and regulated by the Ontario Securities Commission.

Our insurance operations are primarily conducted through The Equipment Insurance Company, a Vermont corporation; CIT Insurance Company Limited, a Missouri corporation; CIT Insurance Agency, Inc., a Delaware corporation; and Equipment Protection Services (Europe) Limited, an Irish company. Each company is licensed to enter into insurance contracts and is subject to regulation and examination by insurance regulators.

CIT Bank Limited, an English corporation, is licensed as a bank and broker-dealer and is subject to regulation and examination by the Financial Conduct Authority and the Prudential Regulation Authority of the United Kingdom. Banco Commercial Investment Trust do Brazil S.A., a Brazilian corporation, is licensed as a bank and is subject to regulation and examination by Banco Central do Brazil. In connection with the restructuring of our international Equipment Finance platform, we have surrendered other banking licenses in France, Germany, and Sweden.

The regulation and oversight of the financial services industry has undergone significant revision in the past several years. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was enacted in July 2010, made extensive changes to the regulatory structure and environment affecting banks, BHCs, non-bank financial companies, broker dealers, and investment advisory and management firms. The Dodd-Frank Act has resulted in extensive rulemaking by various regulatory agencies, which is ongoing. Although the Dodd-Frank Act has not significantly limited CIT from conducting the activities in which we were previously engaged, a number of regulations have affected and will continue to affect the conduct of a number of our business activities, either directly, through regulation of specific activities or indirectly through regulation of concentration risks, capital, or liquidity or through the imposition of additional compliance requirements. Furthermore, if the OneWest Transaction is approved and completed, we will become subject to additional regulations that are applicable to SIFIs, which generally include financial institutions that have average total consolidated assets for the four most recent consecutive quarters of \$50 billion or more (the “\$50 Billion SIFI Threshold”). We continue to devote significant resources in terms of both increased expenditures and management time to assessing the regulatory changes we are facing and implementing the new regulations.

### **Banking Supervision and Regulation**

#### *Permissible Activities*

CIT is a BHC registered under the BHC Act and elected to become a FHC under the BHC Act, effective July 23, 2013. In general, the BHC Act limits the business of BHCs that are not financial holding companies to banking, managing or controlling banks, performing servicing activities for subsidiaries, and engaging in activities that the FRB has determined, by order or regulation, are so closely related to banking as to be a proper incident thereto. An FHC, however, may engage in other activities, or acquire and retain the shares of a company engaged in activities that are financial in nature or incidental or complementary to activities that are financial in nature as long as the FHC continues to meet the eligibility requirements for FHCs. These requirements include that the FHC and each of its U.S. depository institution subsidiaries maintain their status as “well-capitalized” and “well-managed.”

A depository institution subsidiary is considered to be “well-capitalized” if it satisfies the requirements for this status discussed below under “Prompt Corrective Action.” A depository institution subsidiary is considered “well-managed” if it received a composite rating and management rating of at least “satisfactory” in its most recent examination. An FHC’s status will also depend upon its maintaining its status as “well-capitalized” and “well-managed” under applicable FRB regulations. If an FHC ceases to meet these capital and management requirements, the FRB’s regulations provide that the FHC must enter into an agreement with the FRB to comply with all applicable capital and management requirements. Until the FHC returns to compliance, the FRB may impose limitations or conditions on the conduct of its activities, and the company may not commence any non-banking financial activities permissible for FHCs or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days, the FRB may require divestiture of the FHC’s depository institutions. BHCs and banks must also be well-capitalized and well-managed in order to acquire banks located outside their home state. An FHC will also be limited in its ability to commence non-banking financial activities or acquire a company engaged in such financial activities if any of its insured depository institution subsidiaries fails to maintain a “satisfactory” rating under the Community Reinvestment Act, as described below under “Community Reinvestment Act.”

Activities that are “financial in nature” include securities underwriting, dealing and market making, advising mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the FRB, in consultation with the Secretary of the Treasury, determines to be financial in nature or incidental to such financial activity. “Complementary activities” are activities that the FRB determines upon application to be complementary to a financial activity and that do not pose a safety and soundness issue. CIT is primarily engaged in activities that are permissible for a BHC that is not an FHC.

**Item 1: Business Overview**

---

**Table of Contents**

**8 CIT ANNUAL REPORT 2014**

The Dodd-Frank Act places additional limits on the activities of banks and their affiliates by prohibiting them from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This statutory provision is commonly called the “Volcker Rule”. The statutory provision became effective in July 2012 and required banking entities subject to the Volcker Rule to bring their activities and investments into compliance with applicable requirements by July 2014. In December 2013, the federal banking agencies, the SEC, and the CFTC adopted final rules to implement the Volcker Rule, and the FRB, by order, extended the compliance period to July 2015. In December 2014, the FRB, by order, extended the conformance period to July 2016 for investments in and relationships with so-called legacy covered funds and stated its intention to grant an additional extension through July 2017. The final rules are highly complex and require an extensive compliance program, including an enhanced compliance program applicable to banking entities with more than \$50 billion in consolidated assets. CIT does not currently anticipate that the Volcker Rule will have a material effect on its business and activities, as we have a limited amount of trading activities and fund investments. CIT has sold certain of its fund investments, will incur additional costs to revise its policies and procedures, and will need to upgrade its operating and monitoring systems to ensure compliance with the Volcker Rule. We cannot yet determine the precise financial impact of the rule on CIT and its customers.

*Capital Requirements*

As a BHC, CIT is subject to consolidated regulatory capital requirements administered by the FRB. CIT Bank is subject to similar capital requirements administered by the FDIC. Upon completion of the merger with OneWest Bank, CIT Bank, N.A. would be subject to the capital requirements administered by the OCC. As of December 31, 2014 and prior, the risk-based capital guidelines applicable to CIT were based upon the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee). Effective January 1, 2015, CIT became subject to the risk-based capital guidelines that are based upon the Basel Committee’s final framework for strengthening capital and liquidity regulation, which was released in December 2010 and revised in June 2011 (Basel III).

*General Risk-Based Capital Requirements.* As of December 31, 2014 and prior, CIT computed and reported its risk-based capital ratios in accordance with the general risk-based capital rules set by the U.S. banking agencies that were based upon Basel I. Under these rules, as applicable to CIT, Tier 1 capital generally included common shareholders’ equity, retained earnings, and minority interests in equity accounts of consolidated subsidiaries, less the effect of certain items in accumulated other comprehensive income, goodwill and intangible assets, one-half of the investment in unconsolidated subsidiaries and other adjustments. Tier 1 capital could also include qualifying non-cumulative perpetual preferred stock and a limited amount of trust preferred securities and qualifying cumulative perpetual preferred stock, none of which CIT currently has outstanding. Tier 2 capital consisted of the allowance for credit losses up to 1.25 percent of risk-weighted assets less one-half of the investment in unconsolidated subsidiaries and other adjustments. In addition, Tier 2 capital included perpetual preferred stock not qualifying as Tier 1 capital, qualifying mandatory convertible debt securities, and qualifying subordinated debt, none of which CIT currently has outstanding. The sum of Tier 1 and Tier 2 capital represented our qualifying “total capital,” with Tier 1 capital representing at least half of our qualifying “total capital”.

Under the Basel I capital guidelines of the FRB, assets and certain off-balance sheet commitments and obligations were converted into risk-weighted assets against which regulatory capital was measured. Risk weighted assets were determined by dividing assets and certain off-balance sheet commitments and obligations into risk categories, each of which was assigned a risk weighting, which ranged from 0% (e.g., for U.S. Treasury Bonds) to 100%.

## Edgar Filing: CIT GROUP INC - Form 10-K

CIT, like other BHCs, was required to maintain Tier 1 capital and “total capital” equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance sheet items, such as long-term unfunded loan commitments). CIT Bank, like other depository institutions, was required to maintain equivalent capital levels under capital adequacy guidelines. In addition, for a BHC and a depository institution to be considered “well capitalized” its Tier 1 capital and “Total capital” ratios were required to be at least 6.0% and 10.0%, respectively.

CIT and CIT Bank both continued to meet the “well capitalized” thresholds at December 31, 2014. CIT’s Tier 1 capital and Total capital ratios were 14.5% and 15.2%, while CIT Bank’s ratios were 13.0% and 14.2%, respectively.

*Leverage Requirements.* Under Basel I, BHCs and depository institutions were also required to comply with minimum Tier 1 Leverage ratio requirements. The Tier 1 Leverage ratio was the ratio of a banking organization’s Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). Under these requirements, BHCs and FDIC-supervised banks that either had the highest supervisory rating or had implemented the appropriate federal regulatory authority’s risk-adjusted measure for market risk were required to maintain a minimum Tier 1 Leverage ratio of 3.0%. All other BHCs and FDIC-supervised banks were required to maintain a minimum Tier 1 Leverage ratio of 4.0%, unless a different minimum was specified by an appropriate regulatory authority. In addition, for a depository institution to be considered “well capitalized” under the regulatory framework for prompt corrective action discussed under “*Prompt Corrective Action*” below, its Tier 1 Leverage ratio was required to be at least 5.0%.

At December 31, 2014, CIT’s Tier 1 leverage ratio was 17.4% and CIT Bank’s was 12.2%.

*Basel III and the New Standardized Risk-based Approach.* In December 2010, the Basel Committee released Basel III, its final framework for strengthening capital and liquidity regulation, which was revised in June 2011. In July 2013, the FRB and the FDIC issued a final rule (Basel III Final Rule) that adopted the final Basel III capital framework implementing the revised risk-based capital and leverage requirements for U.S. banking organizations proposed under Basel III. The Company, as well as the Bank, became subject to the Basel III Final Rule effective January 1, 2015.

Among other matters, the Basel III Final Rule: (i) introduces a new capital measure called “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specifies that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory

---

### **Table of Contents**

CIT ANNUAL REPORT 2014 9

capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the deductions from and adjustments to capital as compared to existing regulations. For most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes, which will be subject to the Basel III Final Rule specific requirements. The Company does not currently have either of these forms of capital outstanding.

The Basel III Final Rule provides for a number of deductions from and adjustments to CET1. These include, for example, goodwill, other intangible assets, and deferred tax assets (DTAs) that arise from net operating loss and tax credit carryforwards net of any related valuation allowance. Also, mortgage servicing rights, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial institutions must be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. The non-DTA related deductions (goodwill, intangibles, etc.) may be reduced by netting with any associated deferred tax liabilities (DTLs). As for the DTA deductions, the netting of any remaining DTL must be allocated in portion to the DTAs arising from net operating losses and tax credit carryforwards and those arising from temporary differences.

In addition, under the Basel I general risk-based capital rules, the effects of certain components of accumulated other comprehensive income (“AOCI”) included in shareholders’ equity (for example, mark-to-market of securities held in the

## Edgar Filing: CIT GROUP INC - Form 10-K

available-for-sale (“AFS”) portfolio) under U.S. GAAP are reversed for the purpose of determining regulatory capital ratios. Pursuant to the Basel III Final Rule, the effects of these AOCI items are not excluded; however, non-advanced approaches banking organizations, including the Company and CIT Bank, may make a one-time permanent election to continue to exclude the AOCI items currently excluded under Basel I. Both the Company and CIT Bank will elect to exclude AOCI items from regulatory capital ratios. The Basel III Final Rule also precludes certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies’ Tier 1 capital. The Company does not have any hybrid securities outstanding at December 31, 2014.

Implementation of some of these deductions to CET1 began on January 1, 2015, and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and adding 20% per year thereafter until January 1, 2018).

The Basel III Final Rule prescribed a new approach for risk weightings for BHCs and banks that follow the Standardized approach, which applies to CIT. This approach expands the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, ranging from 0% for U.S. government and agency securities, to as high as 1,250% for such exposures as credit-enhancing interest-only strips or unsettled security/commodity transactions. Using the reported exposure balances as of December 31, 2014, and the Basel III Final Rule’s standardized approach as fully phased in at January 1, 2019, the Company’s total risk-weighted assets would increase \$1,598.5 million or 2.9% while CIT Bank’s would increase \$147.3 million or 0.8%. This modest increase is due to the similarity in categorizing the assets and off-balance sheet exposures of CIT and CIT Bank in accordance with the Standardized Approach under the Basel III Final Rule compared to Basel I.

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%, respectively. In addition, 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 will be implemented beginning January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

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

<b>Minimum Capital Requirements — January 1, 2019</b>			
	<b>Tier 1 Common Equity</b>	<b>Tier 1 Capital</b>	<b>Total Capital</b>
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%

With respect to CIT Bank, the Basel III Final Rule revises the “prompt corrective action” (“PCA”) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be adequately capitalized. The Basel III Final Rule does not change the total risk-based capital requirement for any PCA category. Both the Company and CIT Bank are subject to a minimum Tier 1 Leverage ratio of 4%.

As non-advanced approaches banking organizations, the Company and CIT Bank will not be subject to the Basel III Final Rule’s countercyclical buffer or the supplementary leverage ratio.

As of December 31, 2014, the Company and CIT Bank have met all capital requirements under the Basel III Final Rule, including the capital conservation buffer, on a fully phased-in basis as if such requirements were currently effective.

**Item 1: Business Overview**

**Table of Contents****10 CIT ANNUAL REPORT 2014**

The following table presents a comparison of CIT's and CIT Bank's capital ratios as of December 31, 2014 calculated under the Basel I rules and the fully phased-in Basel III Final Rule — Standardized approach.

**Comparison of Basel I and Basel III Capital Ratios (dollars in millions)**

	As of December 31, 2014			
	Basel I		Basel III Final Rule <sup>(1)</sup>	
	Actual	Requirement	Actual	Requirement
<b>CIT</b>				
Capital				
CET1	N/A <sup>(2)</sup>		\$ 8,242.6	
Tier 1	\$ 8,067.3		8,242.6	
Total	8,412.4		8,624.4	
Risk-weighted assets	55,480.9		57,079.4	
Adjusted quarterly average assets	46,327.3		46,585.9	
Capital ratios				
CET1	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	14.4%	7.0% <sup>(4)</sup>
Tier 1	14.5%	6.0% <sup>(3)</sup>	14.4%	8.5% <sup>(4)</sup>
Total	15.2%	10.0% <sup>(3)</sup>	15.1%	10.5% <sup>(4)</sup>
Leverage	17.4%	4.0%	17.7%	4.0%
<b>CIT Bank</b>				
Capital				
CET1	N/A <sup>(2)</sup>		\$ 2,536.4	
Tier 1	\$ 2,536.3		2,536.4	
Total	2,781.5		2,783.4	
Risk-weighted assets	19,552.3		19,699.6	
Adjusted quarterly average assets	20,860.9		20,860.9	
Capital ratios				
CET1	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>	12.9%	7.0% <sup>(4)</sup>
Tier 1	13.0%	6.0% <sup>(3)</sup>	12.9%	8.5% <sup>(4)</sup>
Total	14.2%	10.0% <sup>(3)</sup>	14.1%	10.5% <sup>(4)</sup>
Leverage	12.2%	5.0% <sup>(3)</sup>	12.2%	4.0%

(1) Basel III Final Rule calculated under the Standardized Approach on a fully phased-in basis that will be required effective January 1, 2019. These ratios are preliminary estimates based upon our present interpretation of the Basel III Final Rule.

(2) Not applicable as the CET1 ratio was introduced with the Basel III Final Rule.

(3) Basel I minimum requirements for “well capitalized” institution.

(4) Required ratios under the Basel III Final Rule include the post-transition minimum capital conversation buffer effective January 1, 2019.

### *Stress Test and Capital Plan Requirements*

In October 2012, the FRB issued final regulations, commonly referred to as Dodd Frank Act Stress Testing or DFA Stress Testing, detailing stress test requirements for BHCs, savings and loan companies and state member banks with total consolidated assets greater than \$10 billion. Similarly, the FDIC published regulations requiring annual stress tests for FDIC-insured state nonmember banks and FDIC-insured state-chartered savings organizations with total consolidated assets averaging \$10 billion or more for four consecutive quarters.

Both CIT and the Bank are required to conduct annual stress tests using scenarios provided by the FRB and FDIC respectively. The scenarios are typically the same since they have been jointly issued by the agencies. CIT must submit its stress test results to the FRB and the Bank to both the FDIC and the FRB by March 31 of each year. In addition, both CIT and the Bank are required to publicly disclose the summary stress test results in a forum easily accessible to the public, such as CIT's website, between June 15 and June 30 following the submission of the stress tests. The results, at a minimum, must contain certain specific details of the "severely adverse" scenario.

In late 2014, the Federal Reserve and FDIC modified the stress test timelines. As currently applicable to CIT, beginning with the 2016 stress test program, both CIT and the Bank will submit annual stress test results to their respective regulators by July 31 with public disclosure of summary stress test results between October 15 and October 31.

If CIT exceeds the \$50 Billion SIFI Threshold, as is anticipated if the OneWest Transaction is approved and completed, CIT would become subject to the capital plan rule and become a covered company. As such, CIT would be required to participate in the annual Comprehensive Capital Assessment and Review (CCAR)

---

### **Table of Contents**

CIT ANNUAL REPORT 2014 11

conducted by the FRB. For CCAR, CIT would submit a capital plan along with the annual company-run stress tests to the FRB. The FRB would conduct a separate supervisory stress test using data submitted by CIT in a format specified by the FRB. Both the FRB and CIT must publish the results of the annual supervisory stress tests and company-run stress tests. From 2016 onward, annual capital plans and company-run stress tests will be submitted by April 5 with publication of results by June 30.

A BHC subject to the capital plan may not pay dividends or take other capital actions, which includes share repurchases, except for those specified in its capital plans and in any event only if the BHC has received a "non-objection" to its capital plan from the FRB.

While CIT is not currently subject to the capital plan rule, the FRB has the authority to require any BHC to submit annual capital plans. Although CIT is currently not required to take part in the CCAR, we produce a capital plan that we believe is aligned with the supervisory expectations for large BHCs, which includes and considers stress test results for supervisory scenarios. Our annual capital plan is subject to review by the FRBNY.

If CIT exceeds the \$50 Billion SIFI Threshold, CIT would also be required to conduct mid-cycle company-run stress tests with company-developed economic scenarios for submission to the FRB. Based on the aforementioned modification to the stress test timeline, the mid-cycle stress tests must be submitted by October 5 each year. Public disclosure of the summary mid-cycle stress test results would be made between October 5 and October 20.

### *Liquidity Requirements*

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and BHCs to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio ("LCR"), is

## Edgar Filing: CIT GROUP INC - Form 10-K

designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity's expected net cash outflow for a 30-day time horizon under an acute liquidity stress scenario, with a phased implementation process starting January 1, 2015 and complete implementation by January 1, 2019. The other, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon, with an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018.

On September 3, 2014, the banking regulators adopted a joint final rule implementing the LCR for certain U.S. banking institutions. The rule applies a comprehensive version of the LCR to large and internationally active U.S. banking organizations, which include banks with total consolidated assets of \$250 billion or more or total consolidated on-balance sheet foreign exposure of \$10 billion or more, or any depository institution with total consolidated assets of \$10 billion or more that is a consolidated subsidiary of either of the foregoing. These institutions will be required to hold minimum amounts of high-quality, liquid assets, such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash. Each institution would be required to hold high quality, liquid assets in an amount equal to or greater than its projected cash outflows minus its projected cash inflows capped at 75% of projected cash outflows for a 30-day stress period. The firms must calculate their LCR each business day. The final rule applies a modified version of the LCR requirements to bank holding companies with total consolidated assets of greater than \$50 billion but less than \$250 billion. The modified version of the LCR requirement only requires the LCR calculation to be performed on the last business day of each month and sets the denominator (that is, the calculation of net cash outflows) for the modified version at 70% of the denominator as calculated under the most comprehensive version of the rule applicable to larger institutions. Under the FRB final rule, a BHC with between \$50 billion and \$250 billion in total consolidated assets must comply with the first phase of the minimum LCR requirement at the later of January 1, 2016 or the first quarter after the quarter in which it exceeds the \$50 Billion SIFI Threshold with the LCR requirement going into full-effect on January 1, 2017. CIT anticipates exceeding the \$50 Billion SIFI Threshold if the OneWest Transaction is approved and completed, after which CIT would be required to comply with the modified version of the LCR requirement described below under *Enhanced Standards for Large Bank Holding Companies*.

The U.S. bank regulatory agencies have not issued final rules implementing the NSFR test called for by the Basel III final framework. The Basel Committee released its final standards on the NSFR on October 31, 2014.

### *Prompt Corrective Action*

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), among other things, establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under regulations in effect through December 31, 2014, a depository institution is deemed to be "well capitalized," the highest category, if it has a total capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. As noted above, as of January 1, 2015, the standards for "well-capitalized" status under the prompt corrective action regulations changed by, among other things, introducing a CET1 ratio requirement of 6.5% and increasing the Tier 1 capital ratio requirement from 6.0% to 8.0%. The total capital ratio and leverage ratio requirements remain at 10.0% and 5.0%, respectively. CIT Bank's capital ratios were all in excess of minimum guidelines for well capitalized at December 31, 2014 and 2013. Neither CIT nor CIT Bank is subject to any order or written agreement regarding any capital requirements.

FDICIA requires the applicable federal regulatory authorities to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum requirements. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions as the capital category of an institution declines. Undercapitalized, significantly undercapitalized and critically undercapitalized depository institutions are required to submit a capital restoration plan to their

### Item 1: Business Overview

---

### Table of Contents

12 CIT ANNUAL REPORT 2014



## Edgar Filing: CIT GROUP INC - Form 10-K

primary federal regulator. Although prompt corrective action regulations apply only to depository institutions and not to BHCs, the holding company must guarantee any such capital restoration plan in certain circumstances. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank's assets at the time it became "undercapitalized" or the amount needed to comply. The parent holding company might also be liable for civil money damages for failure to fulfill that guarantee. In the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent's general unsecured creditors.

Regulators take into consideration both risk-based capital ratios and other factors that can affect a bank's financial condition, including (a) concentrations of credit risk, (b) interest rate risk, and (c) risks from non-traditional activities, along with an institution's ability to manage those risks, when determining capital adequacy. This evaluation is made during the institution's safety and soundness examination. An institution may be downgraded to, or deemed to be in, a capital category that is lower than is indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters.

### *Enhanced Standards for Large Bank Holding Companies*

In February 2014, the FRB approved a final rule to implement certain enhanced prudential standards mandated by Section 165 of the Dodd-Frank Act. The final rule applies to, among others, BHCs with at least \$50 billion in total consolidated assets, based on the average of total consolidated assets for the last four quarters. The final rule implements Section 165's risk management requirements, including requirements, duties, and qualifications for a risk management committee and chief risk officer and liquidity stress testing and buffer requirements. The liquidity buffer under these rules is separate from the LCR described above under "*Liquidity Requirements*". The rule refers to the previously adopted final capital rules, capital plan and stress test requirements, discussed in "*Basel III and the New Standardized Risk-based Approach*" and "*Stress Test and Capital Plan Requirements*" above, as meeting Section 165's requirements for U.S. BHCs. The FRB has not yet issued a final rule establishing single counterparty credit limits. The FRB has discretionary authority to establish additional prudential standards, on its own or at the FSOC's recommendation, regarding contingent capital, enhanced public disclosures, short-term debt limits, and otherwise as it deems appropriate.

Two aspects of the final rules – requirements for annual stress testing of capital under one baseline and two stress scenarios and certain corporate governance provisions requiring, among other things, that each BHC establish a risk committee of its board of directors with a "risk management expert" as one of its members – apply to BHCs with total consolidated assets of \$10 billion or more, including CIT. If the OneWest Transaction is approved and completed, CIT will exceed the \$50 Billion SIFI Threshold and will become subject to other requirements of the final rule as well.

### *Acquisitions*

Federal and state laws impose notice and approval requirements for mergers and acquisitions involving depository institutions or BHCs. The BHC Act requires the prior approval of the FRB for (1) the acquisition by a BHC of direct or indirect ownership or control of more than 5% of any class of voting shares of a bank, savings association, or BHC, (2) the acquisition of all or substantially all of the assets of any bank or savings association by any subsidiary of a BHC other than a bank, or (3) the merger or consolidation of any BHC with another BHC. Prior regulatory approval is also generally required for mergers, acquisitions and consolidations involving other insured depository institutions. In reviewing acquisition and merger applications, the bank regulatory authorities will consider, among other things, the competitive effect of the transaction, financial and managerial issues, including the capital position of the combined organization, convenience and needs factors, including the applicant's record under the Community Reinvestment Act of 1977 ("CRA"), the effectiveness of the subject organizations in combating money laundering activities, and the transaction's effect on the stability of the U.S. banking and financial systems. In addition, an FHC must obtain prior approval of the FRB before acquiring certain non-bank financial companies with assets exceeding \$10 billion.

### *Dividends*

CIT 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.

Utah state law imposes limitations on the payment of dividends by CIT Bank. A Utah state bank may declare a dividend out of the net profits of the bank after providing for all expenses, losses, interest, and taxes accrued or due from the bank. Furthermore, before declaring any dividend, a Utah bank must provide for not less than 10% of the net profits of the bank for the period covered by the dividend to be carried to a surplus fund until the surplus is equal to the bank's capital stock, defined as the par value of all shares of the bank that have been issued. Utah law may also impose additional restrictions on the payment of dividends if CIT Bank sustains losses in excess of its reserves for loan losses and undivided profits.

If the merger of CIT Bank with OneWest Bank is completed, the OCC's regulations would apply to the combined 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

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 13

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.

We anticipate that our capital ratios reflected in the stress test calculations required of us and the capital plan that we prepare as described under "*Stress Test and Capital Requirements*", above, will be an important factor considered by the FRB in evaluating whether our proposed return of capital may be an unsafe or unsound practice. Additionally, should our total consolidated assets equal or exceed an average of \$50 billion for the prior four consecutive quarters, as is anticipated if the OneWest Transaction is approved and completed, we would likely also be limited to paying dividends and repurchasing stock only in accordance with our annual capital plan submitted to the FRB under the capital plan rule.

### *Source of Strength Doctrine and Support for Subsidiary Banks*

FRB policy and federal statute require BHCs such as CIT to serve as a source of strength and to commit capital and other financial resources to subsidiary banks. This support may be required at times when CIT may not be able to provide such support without adversely affecting its ability to meet other obligations. If CIT is unable to provide such support, the FRB could instead require the divestiture of CIT Bank and impose operating restrictions pending the divestiture. Any capital loans by a BHC to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of the subsidiary bank. If a BHC commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the FRB's invoking its source of strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment.

### *Enforcement Powers of Federal Banking Agencies*

The FRB and other U.S. banking agencies have broad enforcement powers with respect to an insured depository institution and its holding company, including the power to (i) impose cease and desist orders, substantial fines and other civil penalties, (ii) terminate deposit insurance, and (iii) appoint a conservator or receiver. Failure to comply with applicable laws or regulations could subject

## Edgar Filing: CIT GROUP INC - Form 10-K

CIT or CIT Bank, as well as their officers and directors, to administrative sanctions and potentially substantial civil and criminal penalties.

### *Resolution Planning*

As required by the Dodd-Frank Act, the FRB and FDIC have jointly issued a final rule that requires certain organizations, including BHCs with consolidated assets of \$50 billion or more, to report periodically to regulators a resolution plan for their rapid and orderly resolution in the event of material financial distress or failure. Such a resolution plan must, among other things, ensure that its depository institution subsidiaries are adequately protected from risks arising from its other subsidiaries. The final rule sets specific standards for the resolution plans, including requiring a detailed resolution strategy, a description of the range of specific actions the company proposes to take in resolution, and an analysis of the company's organizational structure, material entities, interconnections and interdependencies, and management information systems, among other elements. If CIT's total consolidated assets exceed the \$50 Billion SIFI Threshold, as is anticipated if the OneWest Transaction is approved and completed, it would become subject to this requirement.

### *Orderly Liquidation Authority*

The Dodd-Frank Act created the Orderly Liquidation Authority ("OLA"), a resolution regime for systemically important non-bank financial companies, including BHCs and their non-bank affiliates, under which the FDIC may be appointed receiver to liquidate such a company upon a determination by the Secretary of the U.S. Department of the Treasury (Treasury), after consultation with the President, with support by a supermajority recommendation from the FRB and, depending on the type of entity, the approval of the director of the Federal Insurance Office, a supermajority vote of the SEC, or a supermajority vote of the FDIC, that the company is in danger of default, that such default presents a systemic risk to U.S. financial stability, and that the company should be subject to the OLA process. This resolution authority is similar to the FDIC resolution model for depository institutions, with certain modifications to reflect differences between depository institutions and non-bank financial companies and to reduce disparities between the treatment of creditors' claims under the U.S. Bankruptcy Code and in an orderly liquidation authority proceeding compared to those that would exist under the resolution model for insured depository institutions.

An Orderly Liquidation Fund will fund OLA liquidation proceedings through borrowings from the Treasury and risk-based assessments made, first, on entities that received more in the resolution than they would have received in liquidation to the extent of such excess, and second, if necessary, on BHCs with total consolidated assets of \$50 billion or more, any non-bank financial company supervised by the FRB, and certain other financial companies with total consolidated assets of \$50 billion or more. If an orderly liquidation is triggered, CIT, if it exceeds the \$50 Billion SIFI Threshold, as is anticipated if the OneWest Transaction is approved and completed, could face assessments for the Orderly Liquidation Fund. We do not yet have an indication of the level of such assessments. Furthermore, were CIT to become subject to the OLA, the regime may also require changes to CIT's structure, organization and funding pursuant to the guidelines described above.

### *FDIC Deposit Insurance*

Deposits of CIT Bank are insured by the FDIC Deposit Insurance Fund ("DIF") up to applicable limits and are subject to premium assessments.

The current assessment system applies different methods to small institutions with assets of less than \$10 billion, which are

**Item 1: Business Overview**

---

## **Table of Contents**

**14** CIT ANNUAL REPORT 2014

classified as small institutions, and large institutions with assets of greater than \$10 billion for more than four consecutive quarters. CIT Bank is an FDIC-insured state nonmember bank with total assets of \$21 billion as of December 31, 2014, and is considered a large institution.

## Edgar Filing: CIT GROUP INC - Form 10-K

For larger institutions, the FDIC uses a two scorecard system, one for most large institutions that have had more than \$10 billion in assets as of December 31, 2006 (unless the institution subsequently reported assets of less than \$10 billion for four consecutive quarters) or have had more than \$10 billion in total assets for at least four consecutive quarters since December 31, 2006 and another for (i) "highly complex" institutions that have had over \$50 billion in assets for at least four consecutive quarters and are directly or indirectly controlled by a U.S. parent with over \$500 billion in assets for four consecutive quarters and (ii) certain processing banks and trust companies with total fiduciary assets of \$500 billion or more for at least four consecutive quarters. Each scorecard has a performance score and a loss-severity score that is combined to produce a total score, which is translated into an initial assessment rate. In calculating these scores, the FDIC utilizes a bank's capital level and CAMELS ratings and certain financial measures designed to assess an institution's ability to withstand asset-related stress and funding-related stress. The FDIC also has the ability to make discretionary adjustments to the total score, up or down, by a maximum of 15 basis points, based upon significant risk factors that are not adequately captured in the scorecard. The total score translates to an initial base assessment rate on a non-linear, sharply increasing scale. For large institutions, the initial base assessment rate ranges from 5 to 35 basis points on an annualized basis. After the effect of potential base rate adjustments described below (but not including the depository institution debt adjustment), the total base assessment rate could range from 2.5 to 45 basis points on an annualized basis.

The potential adjustments to an institution's initial base assessment rate include (i) potential decrease of up to 5 basis points for certain long-term unsecured debt (unsecured debt adjustment) and, (ii) except for well capitalized institutions with a CAMELS rating of 1 or 2, a potential increase of up to 10 basis points for brokered deposits in excess of 10% of domestic deposits (brokered deposit adjustment). As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Additionally, an institution must pay an additional premium (the depository institution debt adjustment) equal to 50 basis points on every dollar above 3% of an institution's Tier 1 capital of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program).

Under the Federal Deposit Insurance Act ("FDIA"), the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

### *Transactions with Affiliates*

Transactions between CIT Bank and its subsidiaries, and CIT and its other subsidiaries and affiliates, are regulated by the FRB and the FDIC 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.

All transactions subject to Sections 23A and 23B between CIT Bank and its affiliates are done on an arms-length basis. During 2014, CIT Bank purchased \$45 million of loans from affiliates, subject to Section 23A, and received \$33 million of loans transferred in the form of capital infusions from CIT. In 2013, the Bank purchased \$272 million of loans from BHC affiliates, subject to Section 23A and received \$67 million of loans transferred in the form of capital infusions from the BHC. Furthermore, to ensure ongoing compliance with Sections 23A and 23B, CIT Bank maintains sufficient collateral in the form of cash deposits and pledged loans to cover any extensions of credit to affiliates.

The Dodd-Frank Act significantly expanded the coverage and scope of the limitations on affiliate transactions within a banking organization and changes the procedure for seeking exemptions from these restrictions. For example, the Dodd-Frank Act expanded the definition of a "covered transaction" to include derivatives transactions and securities lending transactions with a non-bank affiliate under which a bank (or its subsidiary) has credit exposure (with the term "credit exposure" to be defined by the FRB under its existing rulemaking authority). Collateral requirements will apply to such transactions as well as to certain repurchase and reverse repurchase agreements.

### *Safety and Soundness Standards*

FDICIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation, compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines

prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 15

fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the "prompt corrective action" provisions of the FDIA. See "*Prompt Corrective Action*" above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil monetary penalties.

### *Insolvency of an Insured Depository Institution*

If the FDIC is appointed the conservator or receiver of an insured depository institution, upon its insolvency or in certain other events, the FDIC has the power:

- to transfer any of the depository institution's assets and liabilities to a new obligor without the approval of the depository institution's creditors;
- to enforce the terms of the depository institution's contracts pursuant to their terms; or
- to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

In addition, under federal law, the claims of holders of deposit liabilities, including the claims of the FDIC as the guarantor of insured depositors, and certain claims for administrative expenses against an insured depository institution would be afforded priority over other general unsecured claims against such an institution, including claims of debt holders of the institution, in the liquidation or other resolution of such an institution by any receiver. As a result, whether or not the FDIC ever seeks to repudiate any debt obligations of CIT Bank, the debt holders would be treated differently from, and could receive, if anything, substantially less than CIT Bank's depositors.

### *Consumer Financial Protection Bureau Supervision ("CFPB")*

The CFPB is authorized to interpret and administer federal consumer financial laws, as well as to directly examine and enforce compliance with those laws by depository institutions with assets over \$10 billion, such as CIT Bank.

### *Community Reinvestment Act ("CRA")*

The CRA requires depository institutions like CIT Bank to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice by, among other things, providing credit to low-and moderate-income individuals and communities. The CRA does not establish specific lending requirements or programs for depository institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings, which are made available to the public. Failure to receive at least a "Satisfactory" rating could inhibit a depository institution or its holding company from undertaking certain activities, including engaging in activities permitted as a financial holding company under the Gramm-Leach-Bliley Act ("GLBA"). Furthermore, banking regulators take into account CRA ratings when considering approval of

## Edgar Filing: CIT GROUP INC - Form 10-K

applications to acquire, merge, or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office, and such record may be the basis for denying the application. CIT Bank received a rating of "Satisfactory" on its most recent CRA examination by the FDIC.

### *Incentive Compensation*

The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as CIT and CIT Bank, having at least \$1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but these regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which CIT may structure compensation for its executives.

In June 2010, the FRB and the FDIC issued comprehensive final guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act discussed above.

### *Anti-Money Laundering ("AML") and Economic Sanctions*

In the U.S., the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001, imposes significant obligations on financial institutions, including banks, to detect and deter money laundering and terrorist financing, including requirements to implement AML programs, verify the identity of customers that maintain accounts, file currency transaction reports, and monitor and report suspicious activity to appropriate law enforcement or regulatory authorities. Anti-money laundering laws outside the United States contain similar requirements to implement AML programs. The Company has implemented policies, procedures, and internal controls that are designed to comply with all applicable AML laws and regulations. The Company has also implemented policies, procedures, and internal controls that are designed to comply with the regulations and economic sanctions programs administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"), which administers and enforces economic and trade sanctions against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in

**Item 1: Business Overview**

---

### **Table of Contents**

**16** CIT ANNUAL REPORT 2014

activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the United States, as well as sanctions based on United Nations and other international mandates.

### **Anti-corruption**

The Company is subject to the Foreign Corrupt Practices Act ("FCPA"), which prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. The Company is also subject to applicable anti-corruption laws in the jurisdictions in which it operates, such as the U.K. Bribery Act, which generally prohibits commercial bribery, the receipt of a bribe, and the failure to prevent bribery by an associated person, in addition to prohibiting improper payments to foreign government officials. The Company has implemented policies, procedures, and internal controls that are

designed to comply with such laws, rules, and regulations.

### **Protection of Customer and Client Information**

Certain aspects of the Company's business are subject to legal requirements concerning the use and protection of customer information, including those adopted pursuant to GLBA and the Fair and Accurate Credit Transactions Act of 2003 in the U.S., the E.U. Data Protection Directive, and various laws in Asia and Latin America. In the U.S., the Company is required periodically to notify its customers and clients of its policy on sharing nonpublic customer or client information with its affiliates or with third party non-affiliates, and, in some circumstances, allow its customers and clients to prevent disclosure of certain personal information to affiliates and third party non-affiliates. In many foreign jurisdictions, the Company is also restricted from sharing customer or client information with third party non-affiliates.

### **Other Regulation**

In addition to U.S. banking regulation, our operations are subject to supervision and regulation by other federal, state, and various foreign governmental authorities. Additionally, our operations may be subject to various laws and judicial and administrative decisions. This oversight may serve to:

- regulate credit granting activities, including establishing licensing requirements, if any, in various jurisdictions;
- establish maximum interest rates, finance charges and other charges;
- regulate customers' insurance coverages;
- require disclosures to customers;
- govern secured transactions;
- set collection, foreclosure, repossession and claims handling procedures and other trade practices;
- prohibit discrimination in the extension of credit and administration of loans; and
- regulate the use and reporting of information related to a borrower's credit experience and other data collection.

Our Aerospace, Rail, Maritime, and other equipment financing operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the U.S., our equipment leasing operations, including for aircraft, railcars, ships, and other equipment, are subject to rules and regulations relating to safety, operations, maintenance, and mechanical standards promulgated by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the Federal Aviation Administration, the Federal Railroad Administration, the Association of American Railroads, the Maritime Administration, the U.S. Coast Guard, and the U.S. Environmental Protection Agency. In addition, state agencies regulate some aspects of rail and maritime operations with respect to health and safety matters not otherwise preempted by federal law.

Each of CIT's insurance subsidiaries is licensed and regulated in the states in which it conducts insurance business. The extent of such regulation varies, but most jurisdictions have laws and regulations governing the financial aspects and business conduct of insurers. State laws in the U.S. grant insurance regulatory authorities broad administrative powers with respect to, among other things: licensing companies and agents to transact business; establish statutory capital and reserve requirements and the solvency standards that must be met and maintained; regulating certain premium rates; reviewing and approving policy forms; regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements; approving changes in control of insurance companies; restricting the payment of dividends and other transactions between affiliates; and regulating the types, amounts and valuation of investments. Each insurance subsidiary is required to file reports, generally including detailed annual financial statements, with insurance regulatory authorities in each of the jurisdictions in which it does business, and its operations and accounts are subject to periodic examination by such authorities.

Changes to laws of states and countries in which we do business could affect the operating environment in substantial and unpredictable ways. We cannot accurately predict whether such changes will occur or, if they occur, the ultimate effect they would have upon our financial condition or results of operations.

---

## WHERE YOU CAN FIND MORE INFORMATION

A copy of our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statement, may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, Washington D.C. 20549. Information on the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at <http://www.sec.gov>, from which interested parties can electronically access the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statement.

---

### Table of Contents

CIT ANNUAL REPORT 2014 17

The Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statement, are available free of charge on the Company's Internet site at <http://www.cit.com> as soon as reasonably practicable after such material is electronically filed or furnished with the SEC. Copies of our Corporate Governance Guidelines, the Charters of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, and the Risk Management Committee, and our Code of Business Conduct are available, free of charge, on our internet site at [www.cit.com/investor](http://www.cit.com/investor), and printed copies are available by contacting Investor Relations, 1 CIT Drive, Livingston, NJ 07039 or by telephone at (973) 740-5000.

---

## GLOSSARY OF TERMS

*Accretable / Non-accretable* fresh start accounting adjustments reflect components of the fair value adjustments to assets and liabilities. Accretable adjustments flow through the related line items on the statement of operations (interest income, interest expense, non-interest income and depreciation expense) on a regular basis over the remaining life of the asset or liability. These primarily relate to interest adjustments on loans and leases, as well as debt. Non-accretable adjustments, for instance credit related write-downs on loans, become adjustments to the basis of the asset and flow back through the statement of operations only upon the occurrence of certain events, such as repayment or sale.

*Available-for-sale* ("AFS") is a classification that pertains to debt and equity securities. We classify these securities as AFS when they are neither trading securities nor held-to-maturity securities. Loans and equipment that we classify in assets held for sale ("AHFS") generally pertain to assets we no longer have the intent or ability to hold until maturity.

*Average Earning Assets* ("AEA") is computed using month end balances and is the average of finance receivables (defined below), operating lease equipment, and financing and leasing assets held for sale, less the credit balances of factoring clients. We use this average for certain key profitability ratios, including return on AEA, Net Finance Revenue as a percentage of AEA and operating expenses as a percentage of AEA.

*Average Finance Receivables* ("AFR") is computed using month end balances and is the average of finance receivables (defined below). We use this average to measure the rate of net charge-offs for the period.

*Average Operating Leases* ("AOL") is computed using month end balances and is the average of operating lease equipment. We use this average to measure the rate of return on our operating lease portfolio for the period.

*Delinquent loan* categorization occurs when payment is not received when contractually due. Delinquent loan trends are used as a gauge of potential portfolio degradation or improvement.

*Derivative Contract* is a contract whose value is derived from a specified asset or an index, such as an interest rate or a foreign currency exchange rate. As the value of that asset or index changes, so does the value of the derivative contract. We use



## Edgar Filing: CIT GROUP INC - Form 10-K

derivatives to manage interest rate, foreign currency or credit risks. The derivative contracts we use may include interest-rate swaps, interest rate caps, cross-currency swaps, foreign exchange forward contracts, and credit default swaps.

*Economic Value of Equity* (“EVE”) measures the net economic value of equity by assessing the market value of assets, liabilities and derivatives.

*Finance Receivables* include loans, capital lease receivables and factoring receivables. In certain instances, we use the term “Loans” synonymously, as presented on the balance sheet.

*Financing and Leasing Assets* (“FLA”) include finance receivables, operating lease equipment, and AHFS.

*Fresh Start Accounting* (“FSA”) was adopted upon emergence from bankruptcy. FSA recognizes that CIT has a new enterprise value following its emergence from bankruptcy and requires asset values to be remeasured using fair value in accordance with accounting requirements for business combinations. The excess of reorganization value over the fair value of tangible and intangible assets was recorded as goodwill. In addition, FSA also requires that all liabilities, other than deferred taxes, be stated at fair value. Deferred taxes were determined in conformity with accounting requirements for Income Taxes.

*Interest income* includes interest earned on finance receivables, cash balances and dividends on investments.

*Lease – capital* is an agreement in which the party who owns the property (lessor), which is CIT as part of our finance business, permits another party (lessee), which is our customer, to use the property with substantially all of the economic benefits and risks of asset ownership passed to the lessee.

*Lease – operating* is a lease in which CIT retains ownership of the asset, collects rental payments, recognizes depreciation on the asset, and retains the risks of ownership, including obsolescence.

*Lower of Cost or Fair Value* relates to the carrying value of an asset. The cost refers to the current book balance of certain assets, such as held for sale assets, and if that balance is higher than the fair value, an impairment charge is reflected in the current period statement of operations.

*Net Finance Revenue* (“NFR”) is a non-GAAP measurement defined as Net Interest Revenue (defined below) plus rental income on operating lease equipment less depreciation on operating lease equipment and maintenance and other operating lease expenses. When divided by AEA, the product is defined as Net Finance Margin (“NFM”). These are key measures used by management in the evaluation of the financial performance of our business.

*Net Interest Income Sensitivity* (“NII Sensitivity”) measures the impact of hypothetical changes in interest rates on NFR.

*Net Interest Revenue* reflects interest and fees on finance receivables and interest/dividends on investments less interest expense on deposits and long term borrowings.

*Net Operating Loss Carryforward / Carryback* (“NOL”) is a tax concept, whereby tax losses in one year can be used to offset taxable income in other years. For example, a U.S. Federal NOL

**Item 1: Business Overview**

---

### **Table of Contents**

**18** CIT ANNUAL REPORT 2014

can first be carried-back and applied against taxable income recorded in the two preceding years with any remaining amount being carried-forward for the next twenty years to offset future taxable income. The rules pertaining to the number of years allowed for the carryback or carryforward of an NOL varies by jurisdiction.

## Edgar Filing: CIT GROUP INC - Form 10-K

*New business volume* represents the initial cash outlay related to new loan or lease equipment transactions entered into during the period. The amount includes CIT's portion of a syndicated transaction, whether it acts as the agent or a participant, and in certain instances, it includes asset purchases from third parties.

*Non-accrual Assets* include finance receivables greater than \$500,000 that are individually evaluated and determined to be impaired, as well as finance receivables less than \$500,000 that are delinquent (generally for more than 90 days), unless it is both well secured and in the process of collection. Non-accrual assets also include finance receivables maintained on a cash basis because of deterioration in the financial position of the borrower.

*Non-performing Assets* include non-accrual assets (described above) and assets received in satisfaction of loans (repossessed assets).

*Other Income* includes (1) factoring commissions, (2) gains and losses on sales of equipment (3) fee revenues, including fees on lines of credit, letters of credit, capital markets related fees, agent and advisory fees and servicing fees, (4) gains and losses on loan and portfolio sales, (5) recoveries on loans charged-off pre-emergence and loans charged-off prior to transfer to AHFS, (6) gains and losses on investments, (7) gains and losses on derivatives and foreign currency exchange, (8) counterparty receivable accretion, (9) impairment on AHFS, and (10) other revenues. Other income combined with rental income on operating leases is defined as Non-interest income.

*Regulatory Credit Classifications* used by CIT are as follows:

- *Pass* – These assets do not meet the criteria for classification in one of the other categories;
- *Special Mention* – These assets exhibit potential weaknesses that deserve management's close attention and if left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects;
- *Substandard* – These assets are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected;
- *Doubtful* – These assets have weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values and
- *Loss* – These assets are considered uncollectible and of little or no value and are generally charged off.

Classified assets are rated as substandard, doubtful and loss and range from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors. Classified loans plus special mention loans are considered criticized loans.

*Residual Values* represent the estimated value of equipment at the end of the lease term. For operating leases, it is the value to which the asset is depreciated at the end of its estimated useful life.

*Risk Weighted Assets* ("RWA") is the denominator to which Total Capital and Tier 1 Capital is compared to derive the respective risk based regulatory ratios. RWA is comprised of both on-balance sheet assets and certain off-balance sheet items (for example loan commitments, purchase commitments or derivative contracts), all of which are adjusted by certain risk-weightings as defined by the regulators, which are based upon, among other things, the relative credit risk of the counterparty.

*Syndication and Sale of Receivables* result from originating finance receivables with the intent to sell a portion, or the entire balance, of these assets to other institutions. We earn and recognize fees and/or gains on sales, which are reflected in other income, for acting as arranger or agent in these transactions.

*Tangible Capital* excludes goodwill and intangible assets. We use tangible capital in measuring tangible book value and tangible book value per share.

*Tier 1 Capital and Tier 2 Capital* are regulatory capital as defined in the capital adequacy guidelines issued by the Federal Reserve. Tier 1 Capital is total stockholders' equity reduced by goodwill and intangibles and adjusted by elements of other comprehensive income and other items. Tier 2 Capital consists of, among other things, other preferred stock that does not qualify as Tier 1,

mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, and allowance for loan losses up to 1.25% of risk weighted assets.

*Total Capital* is the sum of Tier 1 and Tier 2 Capital, subject to certain adjustments, as applicable.

*Total Net Revenue* is a non-GAAP measurement and is the combination of NFR and other income.

*Total Return Swap* ("TRS") is a swap where one party agrees to pay the other the "total return" of a defined underlying asset (e.g., a loan), usually in return for receiving a stream of LIBOR-based cash flows. The total returns of the asset, including interest and any default shortfall, are passed through to the counterparty. The counterparty is therefore assuming the risks and rewards of the underlying asset.

*Troubled Debt Restructuring* ("TDR") occurs when a lender, for economic or legal reasons, grants a concession to the borrower related to the borrower's financial difficulties that it would not otherwise consider.

*Variable Interest Entity* ("VIE") is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets. These entities: lack sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; have equity owners who either do not have voting rights or lack the ability to make significant decisions affecting the entity's operations; and/or have equity owners that do not have an obligation to absorb the entity's losses or the right to receive the entity's returns.

*Yield-related Fees* are collected in connection with our assumption of underwriting risk in certain transactions in addition to interest income. We recognize yield-related fees, which include prepayment fees and certain origination fees, in interest income over the life of the lending transaction.

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 19

---

## **Item 1A. Risk Factors**

*The operation of our business, and the economic and regulatory climate in the U.S. and other regions of the world involve various elements of risk and uncertainty. You should carefully consider the risks and uncertainties described below before making a decision whether to invest in the Company. This is a discussion of the risks that we believe are material to our business and does not include all risks, material or immaterial, that may possibly affect our business. Any of the following risks, as well as additional risks that are presently unknown to us or that we currently deem immaterial, could have a material adverse effect on our business, financial condition, and results of operations.*

### ***Risks Related to Our Strategy and Business Plan***

***If the assumptions and analyses underlying our strategy and business plan, including with respect to market conditions, capital and liquidity, business strategy, and operations are incorrect, we may be unsuccessful in executing our strategy and business plan.***

A number of strategic issues affect our business, including how we allocate our capital and liquidity, our business strategy, our funding models, and the quality and efficiency of operations. We developed our strategy and business plan based upon certain assumptions, analyses, and financial forecasts, including with respect to our capital levels, funding model, credit ratings, revenue growth, earnings, interest margins, expense levels, cash flow, credit losses, liquidity and financing sources, lines of business and scope of our international operations, acquisitions and divestitures, equipment residual values, capital expenditures, retention of key employees, and the overall strength and stability of general economic conditions. Financial forecasts are inherently subject to many uncertainties and are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the

basis of these financial forecasts will not be accurate. Accordingly, our actual financial condition and results of operations may differ materially from what we have forecast. If we are unable to implement our strategic initiatives effectively, we may need to refine, supplement, or modify our business plan and strategy in significant ways. If we are unable to fully implement our business plan and strategy, it may have a material adverse effect on our business, results of operations and financial condition.

***We may not be able to achieve the expected benefits from acquiring a business or assets or from disposing of a business or assets, which may have an adverse effect on our business or results of operations.***

As part of our strategy and business plan, we may consider engaging in business or asset acquisitions or sales to manage our business, the products and services we offer, and our asset levels, credit exposures, or liquidity position. There are a number of risks inherent in acquisition and sale transactions, including the risk that we fail to identify or to complete any of these transactions, that we enter into a transaction, but fail to complete the transaction, that we fail to sell a business or assets that are considered non-strategic or high risk, or that we complete the transaction, but fail to properly integrate the acquired company or to realize the anticipated benefits from the transaction. In 2014, CIT completed two acquisitions, Nacco and Direct Capital, and various sales, the largest being our student lending portfolio. We also entered into an agreement to acquire IMB Holdco LLC and its subsidiary, OneWest Bank, N.A., which is still pending.

If CIT engages in business acquisitions, it may be necessary to pay a premium over book and market values to complete the transaction, which may result in some dilution of our tangible book value and net income per common share. If CIT uses substantial cash or other liquid assets or incurs substantial debt to acquire a business or assets, we could become more susceptible to economic downturns and competitive pressures. Inherent uncertainties exist when integrating the operations of an acquired entity. CIT may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. CIT may also be exposed to other risks inherent in an acquisition, including potential exposure to unknown or contingent liabilities, changes in our credit, liquidity, interest rate or other risk profiles, exposure to potential asset quality issues, potential disruption of our existing business and diversion of management's time and attention, possible loss of key employees or customers of the acquired business, potential risk that certain items were not accounted for properly by the seller in accordance with financial accounting and reporting standards. In most instances, CIT and any potential acquired company will be operating pursuant to different policies, procedures, and processes, and utilizing different systems, which will require significant time, cost, and effort to integrate. If we fail to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition, or if we are unable to adequately integrate the acquired business, or experience unexpected costs, changes in our risk profile, or disruption to our business, it could have a material adverse effect on our business, financial condition, and results of operations.

CIT must generally receive regulatory approval before it can acquire a bank or BHC or for any acquisition in which the assets acquired exceeds \$10 billion. We cannot be certain when or if, or on what terms and conditions, any required regulatory approval may be granted. We may be required to sell assets or business units as a condition to receiving regulatory approval. Our proposed acquisition of IMB Holdco LLC and OneWest Bank, N.A. is still subject to regulatory approval. If CIT announces an acquisition, but fails to close the transaction, whether due to a failure to obtain regulatory approvals, failure to obtain shareholder approval, a change in circumstances, or for any other reason, CIT may be exposed to potential disruption of our business, diversion of management's time and attention, risk from a failure to diversify our business and products, and increased expenses without a commensurate increase in revenues.

As a result of economic cycles and other factors, the value of certain asset classes may fluctuate and decline below their historic cost. If CIT is holding such businesses or asset classes, we may not recover our carrying value if we sell such businesses or assets or we may end up with a higher risk exposure to specific customers, industries, asset classes, or geographic regions than we have targeted. In addition, potential purchasers may be unwilling to pay an amount equal to the face value of a loan or lease if the purchaser is concerned about the quality of our credit

**Item 1A: Risk Factors**

---

**Table of Contents**

**20** CIT ANNUAL REPORT 2014

underwriting. We may not receive adequate consideration for our dispositions. These transactions, if completed, may reduce the size of our business and we may not be able to replace the lending and leasing activity associated with these businesses. As a result, future disposition of assets could have a material adverse effect on our business, financial condition and results of operations.

### ***Risks Related to Capital and Liquidity***

***If we fail to maintain sufficient capital or adequate liquidity to meet regulatory capital guidelines, there could be a material adverse effect on our business, results of operations, and financial condition.***

New and evolving capital and liquidity standards will have a significant effect on banks and BHCs. In July 2013, the FRB and the FDIC approved the Basel III Final Rule, which requires BHCs to maintain more and higher quality capital than in the past. In October 2014, the FRB issued a proposed rule to create a standardized minimum liquidity requirement for large and internationally active banking organizations, referred to as the “liquidity coverage ratio”, or “LCR”. The U.S. bank regulatory agencies are also expected to issue a rule implementing the net stable funding ratio, or “NSFR”, called for by the Basel III Final Framework. If we incur future losses that reduce our capital levels or affect our liquidity, we may fail to maintain our regulatory capital or our liquidity above regulatory minimums and at economically satisfactory levels. Failure to maintain the appropriate capital levels or adequate liquidity would have a material adverse effect on the Company’s financial condition and results of operations, and subject the Company to a variety of formal or informal enforcement actions, which may include restrictions on our business activities, including limiting lending and leasing activities, limiting the expansion of our business, either organically or through acquisitions, requiring the raising of additional capital, which may be dilutive to shareholders, or requiring prior regulatory approval before taking certain actions, such as payment of dividends or otherwise returning capital to shareholders. The new liquidity standards could also require CIT to hold higher levels of short-term investments, thereby reducing our ability to invest in longer-term or less liquid assets. If we are unable to meet any of these capital or liquidity standards, it may have a material adverse effect on our business, results of operations and financial condition.

***If we fail to maintain adequate liquidity or to generate sufficient cash flow to satisfy our obligations as they come due, whether due to a downgrade in our credit ratings or for any other reasons, it could materially adversely affect our future business operations.***

CIT’s liquidity is essential for the operation of our business. Our liquidity, and our ability to issue debt in the capital markets or fund our activities through bank deposits, could be affected by a number of factors, including market conditions, our capital structure and capital levels, our credit ratings, and the performance of our business. An adverse change in any of those factors, and particularly a downgrade in our credit ratings, could negatively affect CIT’s liquidity and competitive position, increase our funding costs, or limit our access to the capital markets or deposit markets. Further, an adverse change in the performance of our business could have a negative impact on our operating cash flow. CIT’s credit ratings are subject to ongoing review by the rating agencies, which consider a number of factors, including CIT’s own financial strength, performance, prospects, and operations, as well as factors not within our control, including conditions affecting the financial services industry generally. There can be no assurance that we will maintain or increase our current ratings, which currently are not investment grade. If we experience a substantial, unexpected, or prolonged change in the level or cost of liquidity, or fail to generate sufficient cash flow to satisfy our obligations, it could adversely affect our business, financial condition, or results of operations.

***Our business may be adversely affected if we fail to successfully expand our sources of deposits at CIT Bank.***

CIT Bank currently does not have a branch network and relies on its online bank, brokered deposits, and certain deposit sweep accounts to raise deposits. Our ability to obtain deposit funding and offer competitive interest rates on deposits is dependent on CIT Bank’s capital levels. Federal banking law generally prohibits a bank from accepting, renewing or rolling over brokered deposits, unless the bank is well-capitalized or it is adequately capitalized and obtains a waiver from the FDIC. There are also restrictions on interest rates that may be paid by banks that are less than well capitalized, under which such a bank generally may not pay an interest rate on any deposit of more than 75 basis points over the national rate published by the FDIC unless the FDIC determines that the bank is operating in a high-rate area. Continued expansion of CIT Bank’s retail online banking platform to diversify the types of deposits that it accepts may require significant time, effort, and expense to implement. We have agreed to acquire OneWest Bank, which has a retail branch network, but that transaction is subject to regulatory approval, which may not be obtained. We are likely to face significant competition for deposits from larger BHCs who are similarly seeking larger and more stable pools of funding. If CIT Bank fails to expand and diversify its deposit-taking capability, it could have an adverse effect on our business, results of operations, and financial condition.

### ***Risks Related to Regulatory Obligations***

***We could be adversely affected by the additional banking regulations imposed on SIFIs when we complete the proposed acquisition of IMB Holdco LLC and OneWest Bank.***

We have agreed to acquire IMB Holdco LLC and its subsidiary, OneWest Bank, a national bank regulated by the OCC, with CIT Bank merging into OneWest Bank, which will be renamed CIT Bank, N.A. If the transaction receives regulatory approval and is completed, CIT will exceed the \$50 billion threshold for designation as a systemically important financial institution (SIFI) in the quarter in which the transaction closes and will become subject to the FRB regulations applicable to SIFIs, generally within four quarters or less of the closing. There are a number of regulations that are applicable to SIFIs (the "SIFI Rules") that are not applicable to smaller banking organizations, including but not limited to enhanced rules on capital plans and stress testing, enhanced governance standards, enhanced liquidity requirements, enhanced reporting requirements, and a requirement to develop a resolution plan. Each of the SIFI Rules will require CIT to dedicate significant time, effort, and expense to comply with the enhanced standards and requirements. If we fail to develop at a reasonable cost the systems and processes necessary to comply

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 21

with the enhanced standards and requirements imposed by the SIFI Rules, it could have a material adverse effect on our business, financial condition, or results of operations.

***Our business is subject to significant government regulation and supervision and we could be adversely affected by banking or other regulations, including new regulations or changes in existing regulations or the application thereof.***

The financial services industry, in general, is heavily regulated. We are subject to the comprehensive, consolidated supervision of the FRB, including risk-based and leverage capital requirements and information reporting requirements. In addition, CIT Bank is subject to supervision by the FDIC and UDFI, including risk-based capital requirements and information reporting requirements. This regulatory oversight is established to protect depositors, federal deposit insurance funds and the banking system as a whole, and is not intended to protect debt and equity security holders. If we fail to satisfy regulatory requirements applicable to bank holding companies that have elected to be treated as financial holding companies, our financial condition and results of operations could be adversely affected, and we may be restricted in our ability to undertake certain capital actions (such as declaring dividends or repurchasing outstanding shares) or engage in certain activities or acquisitions. In addition, our banking regulators have significant discretion in the examination and enforcement of applicable banking statutes and regulations, and may restrict our ability to engage in certain activities or acquisitions, or may require us to maintain more capital.

Proposals for legislation to further regulate, restrict, and tax certain financial services activities are continually being introduced in the United States Congress and in state legislatures. The Dodd-Frank Act, which was adopted in 2010, constitutes the most wide-ranging overhaul of financial services regulation in decades, including provisions affecting, among other things, (i) corporate governance and executive compensation of companies whose securities are registered with the SEC, (ii) FDIC insurance assessments based on asset levels rather than deposits, (iii) minimum capital levels for BHCs, (iv) derivatives activities, proprietary trading, and private investment funds offered by financial institutions, and (v) the regulation of large financial institutions. In addition, the Dodd-Frank Act established additional regulatory bodies, including the FSOC, which is charged with identifying systemic risks, promoting stronger financial regulation, and identifying those non-bank companies that are "systemically important", and the CFPB, which has broad authority to examine and regulate a federal regulatory framework for consumer financial protection. The agencies regulating the financial services industry periodically adopt changes to their regulations and are still finalizing regulations to implement various provisions of the Dodd-Frank Act. In recent years, regulators have increased significantly the level and scope of their supervision and regulation of the financial services industry. We are unable to predict the form or nature of any future changes to statutes or regulation, including the interpretation or implementation thereof. Such increased supervision and regulation could significantly affect our ability to conduct certain of our businesses in a cost-effective manner, restrict the type of activities in which we are permitted to engage, or subject us to stricter and more conservative capital, leverage, liquidity, and risk management standards. Any such action could have a substantial impact on us, significantly increase our costs, limit our growth opportunities, affect our strategies and business operations and increase our capital requirements, and could have an adverse effect on our business, financial condition and results of operations.

## Edgar Filing: CIT GROUP INC - Form 10-K

Our Aerospace, Rail, Maritime, and other equipment financing operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the U.S., our equipment leasing operations, including for aircraft, railcars, ships, and other equipment, are subject to rules and regulations relating to safety, operations, maintenance, and mechanical standards promulgated by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the Federal Aviation Administration, the Federal Railroad Administration, the Association of American Railroads, the Maritime Administration, the U.S. Coast Guard, and the U.S. Environmental Protection Agency. In addition, state agencies regulate some aspects of rail and maritime operations with respect to health and safety matters not otherwise preempted by federal law. Our business operations and our equipment leasing portfolios may be adversely impacted by rules and regulations promulgated by governmental and industry agencies, which could require substantial modification, maintenance, or refurbishment of our aircraft, railcars, ships, or other equipment, or potentially make such equipment inoperable or obsolete. Violations of these rules and regulations can result in substantial fines and penalties, including potential limitations on operations or forfeitures of assets.

The financial services industry is also heavily regulated in many jurisdictions outside of the United States. We have subsidiaries in various countries that are licensed as banks, banking corporations and broker-dealers, all of which are subject to regulation and examination by banking and securities regulators in their home jurisdiction. In certain jurisdictions, including the United Kingdom, the local banking regulators expect the local regulated entity to maintain contingency plans to operate on a stand-alone basis in the event of a crisis. Given the evolving nature of regulations in many of these jurisdictions, it may be difficult for us to meet all of the regulatory requirements, establish operations and receive approvals. Our inability to remain in compliance with regulatory requirements in a particular jurisdiction could have a material adverse effect on our operations in that market and on our reputation generally.

### ***We could be adversely affected by the actions and commercial soundness of other financial institutions.***

CIT's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. CIT has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial institutions, or the financial services industry generally, could affect market liquidity and could lead to losses or defaults by us or by other institutions. Many of these transactions could expose CIT to credit risk in the event of default by its counterparty or client. In addition, CIT's credit risk may be impacted if the collateral held by it cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument

## Item 1A: Risk Factors

---

### **Table of Contents**

22 CIT ANNUAL REPORT 2014

exposure due to CIT. There is no assurance that any such losses would not adversely affect, possibly materially, CIT.

### ***We may be restricted from paying dividends or repurchasing our common stock.***

CIT is a legal entity separate and distinct from its subsidiaries, including CIT Bank, and relies on dividends from its subsidiaries for a significant portion of its cash flow. Federal banking laws and regulations limit the amount of dividends that CIT Bank can pay. BHCs with assets in excess of \$50 billion must develop and submit to the FRB for review an annual capital plan detailing their plans for the payment of dividends on their common or preferred stock or the repurchase of common stock. Although our assets currently are less than \$50 billion, we will exceed the \$50 Billion SIFI Threshold and become subject to the capital plan requirement if the OneWest Transaction is approved and completed. Once subject to this requirement, if our capital plan were not approved or if we do not satisfy applicable capital requirements, our ability to undertake capital actions may be restricted. Furthermore, we still consult with the FRBNY prior to declaring dividends on our common stock or implementing a plan to repurchase our common stock. We cannot determine whether the FRBNY will object to future capital returns.

### ***Risks Related to the Operation of Our Businesses***

***Revenue growth from new business initiatives and expense reductions from efficiency improvements may not be achieved.***

As part of its ongoing business, CIT from time to time enters into new business initiatives. In addition, CIT from time to time has targeted certain expense reductions in its business. The new business initiatives may not be successful in increasing revenue, whether due to significant levels of competition, lack of demand for services, lack of name recognition or a record of prior performance, or otherwise, or may require higher expenditures than anticipated to generate new business volume. The expense initiatives may not reduce expenses as much as anticipated, whether due to delays in implementation, higher than expected or unanticipated costs of implementation, increased costs for new regulatory obligations, or for other reasons. If CIT is unable to achieve the anticipated revenue growth from its new business initiatives or the projected expense reductions from efficiency improvements, its results of operations and profitability may be adversely affected.

***Our Commercial Aerospace business is concentrated by industry and any downturn in that industry may have a material adverse effect on our business.***

Most of our business is diversified by customer, industry, and geography. However, although our Commercial Aerospace business is diversified by customer and geography, it is concentrated in one industry and represents 29% of our financing and leasing assets. If there is a significant downturn in commercial air travel, it could have a material adverse effect on our business and results of operations.

***If we fail to maintain adequate internal control over financial reporting, it could result in a material misstatement of the Company's annual or interim financial statements.***

Management of CIT is responsible for establishing and maintaining adequate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. If we identify material weaknesses or other deficiencies in our internal controls, or if material weaknesses or other deficiencies exist that we fail to identify, our risk will be increased that a material misstatement to our annual or interim financial statements will not be prevented or detected on a timely basis. Any such potential material misstatement, if not prevented or detected, could require us to restate previously released financial statements and could otherwise have a material adverse effect on our business, results of operations, and financial condition.

***Our allowance for loan losses may prove inadequate.***

The quality of our financing and leasing assets depends on the creditworthiness of our customers and their ability to fulfill their obligations to us. We maintain a consolidated allowance for loan losses on our financing and leasing assets to provide for loan defaults and non-performance. The amount of our allowance reflects management's judgment of losses inherent in the portfolio. However, the economic environment is dynamic, and our portfolio credit quality could decline in the future.

Our allowance for loan losses may not keep pace with changes in the credit-worthiness of our customers or in collateral values. Our credit losses were significantly more severe from 2007 to 2009 than in prior economic downturns, due to a significant decline in real estate values, an increase in the proportion of cash flow loans versus asset based loans in our corporate finance segment, the limited ability of borrowers to restructure their liabilities or their business, and reduced values of the collateral underlying the loans. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for accounts receivable, equipment, real estate, or other collateral deteriorates significantly, our allowance for loan losses may prove inadequate, which could have a material adverse effect on our business, results of operations, and financial condition.

In addition to customer credit risk associated with loans and leases, we are exposed to other forms of credit risk, including counterparties to our derivative transactions, loan sales, syndications and equipment purchases. These counterparties include other financial institutions, manufacturers, and our customers. If our credit underwriting processes or credit risk judgments fail to adequately identify or assess such risks, or if the credit quality of our derivative counterparties, customers, manufacturers, or other parties with which we conduct business materially deteriorates, we may be exposed to credit risk related losses that may negatively impact our financial condition, results of operations or cash flows.

***If the models that we use in our business are poorly designed, our business or results of operations may be adversely affected.***

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating regulatory capital levels, as well as to estimate the value of financial



instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on

---

**Table of Contents**

CIT ANNUAL REPORT 2014 23

poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our shareholders, could be affected adversely due to their perception that the quality of the models used to generate the relevant information are insufficient.

***It could adversely affect our business if we fail to retain and/or attract skilled employees.***

Our business and results of operations will depend in part upon our ability to retain and attract highly skilled and qualified executive officers and management, financial, compliance, technical, marketing, sales, and support employees. Competition for qualified executive officers and employees can be challenging, and CIT cannot ensure success in attracting or retaining such individuals. This competition can lead to increased expenses in many areas. If we fail to attract and retain qualified executive officers and employees, it could materially adversely affect our ability to compete and it could have a material adverse effect on our ability to successfully operate our business or to meet our operations, risk management, compliance, regulatory, funding and financial reporting requirements.

***We may not be able to realize our entire investment in the equipment we lease to our customers.***

Our financing and leasing assets include a significant portion of leased equipment, including but not limited to aircraft, railcars and locomotives, technology and office equipment, and medical equipment. The realization of equipment values (residual values) during the life and at the end of the term of a lease is an important element in the profitability of our leasing business. At the inception of each lease, we record a residual value for the leased equipment based on our estimate of the future value of the equipment at the end of lease term or end of equipment estimated useful life.

If the market value of leased equipment decreases at a rate greater than we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, or other factors, it would adversely affect the current values or the residual values of such equipment.

Further, certain equipment residual values, including commercial aerospace residuals, are dependent on the manufacturers' or vendors' warranties, reputation, and other factors, including market liquidity. Residual values for certain equipment, including aerospace, rail, and medical equipment, may also be affected by changes in laws or regulations that mandate design changes or additional safety features. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

The degree of residual realization risk varies by transaction type. Capital leases bear the least risk because contractual payments usually cover approximately 90% of the equipment's cost at the inception of the lease. Operating leases have a higher degree of risk because a smaller percentage of the equipment's value is covered by contractual cash flows over the term of the lease. A significant portion of our leasing portfolios are comprised of operating leases, which increase our residual realization risk.

***We are currently involved in a number of legal proceedings, and may from time to time be involved in government investigations and inquiries, related to the conduct of our business, the results of which could have a material adverse effect on our business, financial condition, or results of operation.***

We are currently involved in a number of legal proceedings, and may from time to time be involved in government investigations and inquiries, relating to matters that arise in connection with the conduct of our business (collectively, "Litigation"). We are also at risk when we have agreed to indemnify others for losses related to Litigation they face, such as in connection with the sale of a business or assets by us. It is inherently difficult to predict the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages. We cannot state with certainty what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. The actual results of resolving Litigation matters may be substantially higher than the amounts reserved, or judgments may be rendered, or fines or penalties assessed in matters for which we have no reserves. Adverse judgments, fines or penalties in one or more Litigation matters could have a material adverse effect on our business, financial condition, or results of operations.

***We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements that under certain circumstances give, or in some cases may give, the counterparty the ability to exercise rights and remedies under such arrangements which, if exercised, may have material adverse consequences.***

We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements, such as securitization transactions, derivatives transactions, funding facilities, and agreements for the purchase or sale of assets, that give, or in some cases may give, the counterparty the ability to exercise rights and remedies upon the occurrence of certain events. Such events may include a material adverse effect or material adverse change (or similar event), a breach of representations or warranties, a failure to disclose material information, a breach of covenants, certain insolvency events, a default under certain specified other obligations, or a failure to comply with certain financial covenants. The counterparty could have the ability, depending on the arrangement, to, among other things, require early repayment of amounts owed by us or our subsidiaries and in some cases payment of penalty amounts, or require the repurchase of assets previously sold to the counterparty. Additionally, a default under financing arrangements or derivatives transactions that exceed a certain size threshold in the aggregate may also cause a cross-default under instruments governing our other financing arrangements or derivatives transactions. If the ability of any counterparty to exercise such rights and remedies is triggered and we are unsuccessful in avoiding or minimizing the adverse consequences discussed above, such consequences could have a material adverse effect on our business, results of operations, and financial condition.

**Item 1A: Risk Factors**

---

**Table of Contents**

**24** CIT ANNUAL REPORT 2014

***Investment in and revenues from our foreign operations are subject to various risks and requirements associated with transacting business in foreign countries.***

An economic recession or downturn, increased competition, or business disruption associated with the political or regulatory environments in the international markets in which we operate could adversely affect us.

In addition, our foreign operations generally conduct business in foreign currencies, which subject us to foreign currency exchange rate fluctuations. These exposures, if not effectively hedged could have a material adverse effect on our investment in international operations and the level of international revenues that we generate from international financing and leasing transactions. Reported results from our operations in foreign countries may fluctuate from period to period due to exchange rate movements in relation to the U.S. dollar, particularly exchange rate movements in the Canadian dollar, which is our largest non-U.S. exposure.

Foreign countries have various compliance requirements for financial statement audits and tax filings, which are required in order to obtain and maintain licenses to transact business and may be different in some respects from GAAP in the U.S. or the tax laws and regulations of the U.S. If we are unable to properly complete and file our statutory audit reports or tax filings, regulators or tax authorities in the applicable jurisdiction may restrict our ability to do business.

Furthermore, our international operations could expose us to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations. The U.S. Department of Justice ("DOJ") and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for

violations of trade sanction laws, the Foreign Corrupt Practices Act (“FCPA”) and other federal statutes. Under trade sanction laws, the government may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. If any of the risks described above materialize, it could adversely impact our operating results and financial condition.

These laws also prohibit improper payments or offers of payments to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. We have operations, deal with government entities and have contracts in countries known to experience corruption. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants, sales agents, or associates that could be in violation of various laws, including the FCPA, even though these parties are not always subject to our control. Our employees, consultants, sales agents, or associates may engage in conduct for which we may be held responsible. Violations of the FCPA may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results, and financial condition.

***We may be adversely affected by significant changes in interest rates.***

In addition to our equity capital, we rely on borrowed money from unsecured debt, secured debt, and deposits to fund our business. We derive the bulk of our income from net finance revenue, which is the difference between interest and rental income on our financing and leasing assets and interest expense on deposits and other borrowings, depreciation on our operating lease equipment and maintenance and other operating lease expenses. Prevailing economic conditions, the trade, fiscal, and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest and the availability and cost of credit, which in turn significantly affects our net finance revenue. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions.

Although interest rates are currently lower than usual, any significant decrease in market interest rates may result in a change in net interest margin and net finance revenue. A substantial portion of our loans and other financing products, as well as our deposits and other borrowings, bear interest at floating interest rates. If interest rates increase, monthly interest obligations owed by our customers to us will also increase, as will our own interest expense. Demand for our loans or other financing products may decrease as interest rates rise or if interest rates are expected to rise in the future. In addition, if prevailing interest rates increase, some of our customers may not be able to make the increased interest payments or refinance their balloon and bullet payment transactions, resulting in payment defaults and loan impairments. Conversely, if interest rates remain low, our interest expense may decrease, but our customers may refinance the loans they have with us at lower interest rates, or with others, leading to lower revenues. As interest rates rise and fall over time, any significant change in market rates may result in a decrease in net finance revenue, particularly if the interest rates we pay on our deposits and other borrowings and the interest rates we charge our customers do not change in unison, which may have a material adverse effect on our business, operating results, and financial condition.

***We may be adversely affected by deterioration in economic conditions that is general in scope or affects specific industries, products or geographic areas.***

Given the high percentage of our financing and leasing assets represented directly or indirectly by loans and leases, and the importance of lending and leasing to our overall business, weak economic conditions are likely to have a negative impact on our business and results of operations. Prolonged economic weakness or other adverse economic or financial developments in the U.S. or global economies in general, or affecting specific industries, geographic locations and/or products, would likely adversely impact credit quality as borrowers may fail to meet their debt payment obligations, particularly customers with highly leveraged loans. Adverse economic conditions have in the past and could in the future result in declines in collateral values, which also decreases our ability to fund against collateral. This would result in higher levels of nonperforming loans, net charge-offs, provision for credit losses, and valuation adjustments on

---

**Table of Contents**

loans held for sale. The value to us of other assets such as investment securities, most of which are debt securities or other financial instruments supported by loans, similarly would be negatively impacted by widespread decreases in credit quality resulting from a weakening of the economy. Accordingly, higher credit and collateral related losses and decreases in the value of financial instruments could impact our financial position or operating results.

In addition, a downturn in certain industries may result in reduced demand for products that we finance in that industry or negatively impact collection and asset recovery efforts. Decreased demand for the products of various manufacturing customers due to recession may adversely affect their ability to repay their loans and leases with us. Similarly, a decrease in the level of airline passenger traffic or a decline in railroad shipping volumes due to reduced demand for certain raw materials or bulk products may adversely affect our aerospace or rail businesses, the value of our aircraft and rail assets, and the ability of our lessees to make lease payments.

We are also affected by the economic and other policies adopted by various governmental authorities in the U.S. and other jurisdictions in reaction to economic conditions. Changes in monetary policies of the FRB and non-U.S. central banking authorities directly impact our cost of funds for lending, capital raising, and investment activities, and may impact the value of financial instruments we hold. In addition, such changes may affect the credit quality of our customers. Changes in domestic and international monetary policies are beyond our control and difficult to predict.

***Competition from both traditional competitors and new market entrants may adversely affect our market share, profitability, and returns.***

Our markets are highly competitive and are characterized by competitive factors that vary based upon product and geographic region. We have a wide variety of competitors that include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, community banks, leasing companies, hedge funds, insurance companies, mortgage companies, manufacturers and vendors.

We compete on the basis of pricing (including the interest rates charged on loans or paid on deposits and the pricing for equipment leases), product terms and structure, the range of products and services offered, and the quality of customer service (including convenience and responsiveness to customer needs and concerns). The ability to access and use technology is an increasingly important competitive factor in the financial services industry, and it is a critically important component to customer satisfaction as it affects our ability to deliver the right products and services.

If we are unable to address the competitive pressures that we face, we could lose market share. On the other hand, if we meet those competitive pressures, it is possible that we could incur significant additional expense, experience lower returns due to compressed net finance revenue, and/or incur increased losses due to less rigorous risk standards.

***We could be adversely affected by changes in tax laws and regulations or the interpretations of such laws and regulations***

We are subject to the income tax laws of the U.S., its states and municipalities and those of the foreign jurisdictions in which we have business operations. These tax laws are complex and may be subject to different interpretations. We must make judgments and interpretations about the application of these inherently complex tax laws when determining our provision for income taxes, our deferred tax assets and liabilities, and our valuation allowance. Changes to the tax laws, administrative rulings or court decisions could increase our provision for income taxes and reduce our net income.

In all likelihood, changes to the U.S. tax laws and regulations will occur within the next few years. While impossible to predict, governments' need for additional revenue makes it likely that there will be continued proposals to change tax rules in ways that could increase our effective tax rate. In addition, these changes could include a widening of the corporate tax base by including earnings from international operations. Such changes to the tax laws could have a material impact on our income tax expense and deferred tax balances.

Conversely, should these amendments to the tax laws reduce our effective tax rate, the value of our deferred tax asset would decline resulting in a charge to our net income during the period in which the amendment is enacted. In addition, the value assigned to our deferred tax assets is dependent upon our ability to generate future taxable income. If we are not able to do so, we may need to increase our valuation allowance for deferred tax assets with a corresponding charge recorded to net income.

These changes could affect our regulatory capital ratios as calculated in accordance with the Basel III Final Rule that became effective for us on January 1, 2015. The exact impact is dependent upon the effects an amendment has on our net deferred tax assets arising from net operating loss and tax credit carry-forwards, versus our net deferred tax assets related to temporary timing differences, as the former is deduction from capital (the numerator to the ratios), while the latter is included in risk-weighted assets (the denominator). See “*Regulation — Banking Supervision and Regulation — Capital Requirements*” section of *Item 1. Business Overview* and for further discussion regarding the impact of deferred tax assets on regulatory capital.

***We may be exposed to risk of environmental liability or claims for negligence, property damage, or personal injury when we take title to properties or lease certain equipment.***

In the course of our business, we may foreclose on and take title to real estate that contains or was used in the manufacture or processing of hazardous materials, or that is subject to other hazardous risks. In addition, we may lease equipment to our customers that is used to mine, develop, process, or transport hazardous materials. As a result, we could be subject to environmental liabilities or claims for negligence, property damage, or personal injury with respect to these properties or equipment. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, accidents or other hazardous risks, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In

**Item 1A: Risk Factors**

---

**Table of Contents**

**26** CIT ANNUAL REPORT 2014

addition, if we are the owner or former owner of a contaminated site or equipment involved in a hazardous incident, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination, property damage, personal injury or other hazardous risks emanating from the property or related to the equipment. If we become subject to significant environmental liabilities or claims for negligence, property damage, or personal injury, our financial condition and results of operations could be adversely affected.

***We rely on our systems, employees, and certain third party vendors and service providers in conducting our operations, and certain failures, including internal or external fraud, operational errors, systems malfunctions, disasters, or terrorist activities, could materially adversely affect our operations.***

We are exposed to many types of operational risk, including the risk of fraud by employees and outsiders, clerical and recordkeeping errors, and computer or telecommunications systems malfunctions. Our businesses depend on our ability to process a large number of increasingly complex transactions. If any of our operational, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or intentional sabotage or fraudulent manipulation of our operations or systems. Third parties with which we do business, including vendors that provide internet access, portfolio servicing, deposit products, or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns, failures, or capacity constraints of their own systems or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or cause financial loss, potential liability to clients, inability to secure insurance, reputational damage, or regulatory intervention, which could have a material adverse effect on our business.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, electrical or telecommunications outages, natural or man-made disasters, such as fires, earthquakes, hurricanes, floods, or tornados, disease pandemics, or events arising from local or regional politics, including terrorist acts or international hostilities. Such disruptions may give rise to losses in service to clients and loss or liability to us. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate.

The computer systems and network systems we and others use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of third-party hardware, software, and service providers. In addition, our computer systems and network infrastructure present security risks, and could be susceptible to hacking, computer viruses, or identity theft. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance. The adverse impact of disasters, terrorist activities, or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

***We continually encounter technological change, and if we are unable to implement new or upgraded technology when required, it may have a material adverse effect on our business.***

The financial services industry is continually undergoing rapid technological change with frequent introduction of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our continued success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that satisfy customer demands and create efficiencies in our operations. If we are unable to effectively implement new technology-driven products and services that allow us to remain competitive or be successful in marketing these products and services to our customers, it may have a material adverse effect on our business.

***We could be adversely affected by information security breaches or cyber security attacks.***

Information security risks for large financial institutions such as CIT have generally increased in recent years, in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties, some of which may be linked to terrorist organizations or hostile foreign governments. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our businesses rely on our digital technologies, computer and email systems, software, and networks to conduct their operations. Our technologies, systems, networks, and our customers' devices may become the target of cyber attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of CIT's or our customers' confidential, proprietary and other information, or otherwise disrupt CIT's or its customers' or other third parties' business operations.

Recently, there have been several well-publicized attacks on retailers and financial services companies in which the perpetrators gained unauthorized access to confidential information and customer data, often through the introduction of computer viruses or malware, cyber attacks, phishing, or other means. There have also been a series of apparently related denial of service attacks on large financial services companies. In a denial of service attack, hackers flood commercial websites with extraordinarily high volumes of traffic, with the goal of disrupting the ability of commercial enterprises to process transactions and possibly making their websites unavailable to customers for extended periods of time. We recently experienced denial of service attacks that targeted a third party service provider that provides software and customer services with respect to our online deposit taking activities, which resulted in temporary disruptions in customers' ability to perform online banking transactions, although no customer data was lost or compromised. Even if not directed at CIT specifically, attacks on

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 27

other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of our business.

Since January 1, 2012, we have not experienced any material information security breaches involving either proprietary or customer information. However, if we experience cyber attacks or other information security breaches in the future, either the Company or its customers may suffer material losses. Our risk and exposure to these matters remains heightened because of,

among other things, the evolving nature of these threats, the prominent size and scale of CIT and its role in the financial services industry, our plans to continue to implement our online banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint and international presence, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, or cyber attacks or security breaches of the networks, systems or devices that our customers use to access our products and services could result in customer attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

---

## Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

---

## Item 2. Properties

CIT primarily operates in North America, with additional locations in Europe, Latin America, and Asia. CIT occupies approximately 1.3 million square feet of space, the majority of which is leased.

---

## Item 3. Legal Proceedings

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, "Litigation"), certain of which Litigation matters are described in *Note 22 — Contingencies of Item 8. Financial Statements and Supplementary Data*. In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company's financial condition, but may be material to the Company's operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see *Note 22 — Contingencies of Item 8. Financial Statements and Supplementary Data*.

---

## Item 4. Mine Safety Disclosures

Not applicable.

**Item 1A: Risk Factors**

---

### Table of Contents

28 CIT ANNUAL REPORT 2014

PART TWO

---

## Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

**Market Information** — CIT's common stock trades on the New York Stock Exchange ("NYSE") under the symbol "CIT."

The following tables set forth the high and low reported closing prices for CIT's common stock.

	2014		2013	
	High	Low	High	Low
<b>Common Stock</b>				
First Quarter	\$52.15	\$45.46	\$44.72	\$39.04
Second Quarter	\$49.89	\$41.52	\$47.56	\$40.88
Third Quarter	\$49.73	\$43.50	\$51.33	\$46.84
Fourth Quarter	\$49.45	\$44.15	\$52.13	\$47.21

**Holders of Common Stock** — As of February 6, 2014, there were 111,113 beneficial holders of common stock.

**Dividends** — We declared the following dividends in 2014:

Declaration Date	Per Share Dividend
January	\$ 0.10
April	\$ 0.10
July	\$ 0.15
October	\$ 0.15

On January 21, 2015, the Board of Directors declared a quarterly cash dividend of \$0.15 per share payable on February 27, 2015 to shareholders of record on February 13, 2015. We declared a \$0.10 cash dividend on our common stock during the 2013 fourth quarter. There were no other dividends declared during 2013.

**Shareholder Return** — The following graph shows the annual cumulative total shareholder return for common stock during the period from December 31, 2009 to December 31, 2014. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes \$100 was invested on December 31, 2009. Each of the indices shown assumes that all dividends paid were reinvested.

CIT STOCK PERFORMANCE DATA

[Table of Contents](#)



**Securities Authorized for Issuance Under Equity Compensation Plans** — Our equity compensation plans in effect following the Effective Date were approved by the Bankruptcy Court and do not require shareholder approval. Equity awards associated with these plans are presented in the following table.

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plan approved by the Court	59,095	\$ 31.23	5,185,306*
* Excludes the number of securities to be issued upon exercise of outstanding options and 2,293,739 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.			

During 2014, we had no equity compensation plans that were not approved by the Court or by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data, Note 20 — Retirement, Postretirement and Other Benefit Plans*.

**Issuer Purchases of Equity Securities** — In January and April 2014, the Board of Directors approved the repurchase of up to \$307 million and \$300 million, respectively, of common stock through December 31, 2014. On July 22, 2014, the Board of Directors approved an additional repurchase of up to \$500 million of common stock through June 30, 2015. Management determined the timing and amount of shares repurchased under the share repurchase authorizations based on market conditions and other considerations. The repurchases were effected via open market purchases and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The repurchased common stock is held as treasury shares and may be used for the issuance of shares under CIT's employee stock plans.

The following table provides information related to purchases by the Company of its common shares:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Total Dollar Amount Purchased Under the Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
				(dollars in millions)	(dollars in millions)
2013 <sup>(1)</sup>			4,006,941	\$ 193.4	\$ —
2014 – First Quarter Purchases <sup>(2)</sup>			2,905,348	\$ 135.6	
2014 – Second Quarter Purchases <sup>(2)(3)</sup>			9,409,798	\$ 416.3	
2014 – Third Quarter Purchases <sup>(3)</sup>			2,238,147	\$ 105.9	
2014 – Fourth Quarter Purchases <sup>(3)</sup>					
October 1–31, 2014	447,847	\$ 45.76	447,847	\$ 20.5	
November 1–30, 2014	—	\$ —	—	—	
December 1–31, 2014	2,066,508	\$ 46.94	2,066,508	97.0	
	2,514,355	\$ 46.73	2,514,355	\$ 117.5	
Year to date – December 31, 2014 <sup>(4)</sup>			17,067,648	\$ 775.3	\$ 326.6

- (1) Shares repurchased were subject to a \$200 million total that expired on December 31, 2013.
- (2) Shares repurchased were subject to a \$607 million total that expired on December 31, 2014.
- (3) Remaining share repurchases are subject to a \$500 million total that expires on June 30, 2015.

Through January 31, 2015, we repurchased an additional 4.7 million of our shares for an aggregate purchase price of \$212 million. After these purchases, \$114 million remained of the authorized repurchase capacity that expires on June 30, 2015.

**Unregistered Sales of Equity Securities** — There were no sales of common stock during 2014. However, there were issuances of common stock under equity compensation plans and an employee stock purchase plan, both of which are subject to registration statements.

#### Item 5: Market for Registrant's Common Equity

#### Table of Contents

30 CIT ANNUAL REPORT 2014

## Item 6. Selected Financial Data

The following table sets forth selected consolidated financial information regarding our results of operations, balance sheets and certain ratios.

The data presented below is explained further in, and should be read in conjunction with, *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* and *Item 7A. Quantitative and Qualitative Disclosures about Market Risk* and *Item 8. Financial Statements and Supplementary Data*.

#### Select Data (dollars in millions)

	At or for the Years Ended December 31,				
	2014	2013	2012	2011	2010
<b>Select Statement of Operations Data</b>					
Net interest revenue	\$ 140.3	\$ 194.3	\$ (1,271.7)	\$ (532.3)	\$ 542.6
Provision for credit losses	(100.1)	(64.9)	(51.4)	(269.7)	(802.1)
Total non-interest income	2,398.4	2,278.7	2,515.5	2,739.8	2,760.0
Total other expenses	(1,757.8)	(1,673.9)	(1,607.8)	(1,691.9)	(1,756.4)
Income (loss) from continuing operations	1,077.5	644.4	(535.8)	83.9	502.9
Net income (loss)	1,130.0	675.7	(592.3)	14.8	521.3
<b>Per Common Share Data</b>					
Diluted income (loss) per common share – continuing operations	\$ 5.69	\$ 3.19	\$ (2.67)	\$ 0.42	\$ 2.51
	\$ 5.96	\$ 3.35	\$ (2.95)	\$ 0.07	\$ 2.60

Edgar Filing: CIT GROUP INC - Form 10-K

At or for the Years Ended December 31,

Diluted income (loss) per common share					
Book value per common share	\$ 50.13	\$ 44.78	\$ 41.49	\$ 44.27	\$ 44.54
Tangible book value per common share	\$ 46.83	\$ 42.98	\$ 39.61	\$ 42.23	\$ 42.17
Dividends declared per common share	\$ 0.50	\$ 0.10	—	—	—
Dividend payout ratio	8.4%	3.0%	—	—	—
<b>Performance Ratios</b>					
Return on average common stockholders' equity	12.8%	7.8%	(7.0)%	0.2%	6.0%
Net finance revenue as a percentage of average earning assets	4.25%	4.61%	(0.09)%	2.09%	4.74%
Return on average continuing operations total assets	2.37%	1.56%	(1.38)%	0.21%	1.08%
Total ending equity to total ending assets	18.9%	18.8%	18.9%	19.6%	17.4%
<b>Balance Sheet Data</b>					
Loans including receivables pledged	\$ 19,495.0	\$ 18,629.2	\$ 17,153.1	\$ 15,225.8	\$ 16,612.9
Allowance for loan losses	(346.4)	(356.1)	(379.3)	(407.8)	(416.2)
Operating lease equipment, net	14,930.4	13,035.4	12,411.7	12,006.4	11,155.0
Goodwill and intangible assets, net	571.3	334.6	345.9	345.9	355.6
Total cash and short-term investments	8,223.9	7,532.5	7,477.1	8,264.3	11,070.5
Assets of discontinued operation	—	3,821.4	4,202.6	7,021.8	8,555.1
Total assets	47,880.0	47,139.0	44,012.0	45,263.4	51,453.4
Deposits	15,849.8	12,526.5	9,684.5	6,193.7	4,536.2
Long-term borrowings	18,455.8	18,484.5	18,330.9	21,743.9	29,303.9
Liabilities of discontinued operation	—	3,277.6	3,648.8	4,595.4	4,798.4
Total common stockholders' equity	9,068.9	8,838.8	8,334.8	8,883.6	8,929.0
<b>Credit Quality</b>					
Non-accrual loans as a percentage of finance receivables	0.82%	1.29%	1.92%	4.61%	9.73%
Net charge-offs as a percentage of average finance receivables	0.52%	0.44%	0.46%	1.70%	2.07%
Allowance for loan losses as a percentage of finance receivables	1.78%	1.91%	2.21%	2.68%	2.51%
<b>Financial Ratios</b>					
Tier 1 Capital Ratio	14.5%	16.7%	16.2%	18.8%	19.0%
Total Capital Ratio	15.2%	17.4%	17.0%	19.7%	19.9%

**Table of Contents**

CIT ANNUAL REPORT 2014 31

**Average Balances<sup>(1)</sup> and Associated Income for the year ended:** (dollars in millions)

	December 31, 2014			December 31, 2013			December 31, 2012	
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest
Interest bearing deposits	\$ 5,343.0	\$ 17.7	0.33%	\$ 5,531.6	\$ 16.6	0.30%	\$ 6,420.1	\$ 21.7
Securities purchased under agreements to resell	242.3	1.3	0.54%	—	—	—	—	—
Investment securities	1,667.8	16.5	0.99%	1,886.0	12.3	0.65%	1,316.7	10.5
Loans (including held for sale) <sup>(2)(3)</sup>								
U.S. <sup>(2)</sup>	16,759.1	905.1	5.88%	14,618.0	855.3	6.40%	12,403.4	953.5
Non-U.S.	3,269.0	285.9	8.75%	4,123.6	371.0	9.00%	4,029.1	408.3
Total loans <sup>(2)</sup>	20,028.1	1,191.0	6.38%	18,741.6	1,226.3	7.01%	16,432.5	1,361.8
Total interest earning assets / interest income <sup>(2)(3)</sup>	27,281.2	1,226.5	4.73%	26,159.2	1,255.2	5.04%	24,169.3	1,394.0
Operating lease equipment, net (including held for sale) <sup>(4)</sup>								
U.S. <sup>(4)</sup>	7,755.0	689.6	8.89%	6,559.0	613.1	9.35%	6,139.0	596.9
Non-U.S. <sup>(4)</sup>	7,022.3	590.9	8.41%	6,197.1	580.6	9.37%	6,299.0	651.3
Total operating lease equipment, net <sup>(4)</sup>	14,777.3	1,280.5	8.67%	12,756.1	1,193.7	9.36%	12,438.0	1,248.2
Total earning assets <sup>(2)</sup>	42,058.5	\$2,507.0	6.16%	38,915.3	\$2,448.9	6.50%	36,607.3	\$2,642.2
Non interest earning assets								
Cash due from banks	945.0			522.1			441.2	
Allowance for loan losses	(349.6)			(367.8)			(405.1)	
All other non-interest earning assets	2,720.5			2,215.3			2,228.2	
Assets of discontinued operation	1,167.2			4,016.3			5,420.7	
<b>Total Average Assets</b>	<b>\$ 46,541.6</b>			<b>\$ 45,301.2</b>			<b>\$ 44,292.3</b>	
<b>Average Liabilities</b>								
Borrowings								
Deposits	\$ 13,955.8	\$ 231.0	1.66%	\$ 11,212.1	\$ 179.8	1.60%	\$ 7,707.9	\$ 152.5
Long-term borrowings <sup>(5)</sup>	18,582.0	855.2	4.60%	18,044.5	881.1	4.88%	19,964.5	2,513.2
Total interest-bearing liabilities	32,537.8	\$1,086.2	3.34%	29,256.6	\$1,060.9	3.63%	27,672.4	\$2,665.7
Credit balances of factoring clients	1,368.5			1,258.6			1,194.4	
Other non-interest bearing liabilities	2,791.7			2,638.2			2,642.7	
Liabilities of discontinued operation	997.2			3,474.2			4,293.8	
Noncontrolling interests	7.0			9.2			5.0	
Stockholders' equity	8,839.4			8,664.4			8,484.0	
<b>Total Average Liabilities and Stockholders' Equity</b>	<b>\$ 46,541.6</b>			<b>\$ 45,301.2</b>			<b>\$ 44,292.3</b>	

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014		December 31, 2013		December 31, 2012
Net revenue spread		2.82%		2.87%	
Impact of non-interest bearing sources		0.67%		0.82%	
<b>Net revenue/yield on earning assets<sup>(2)</sup></b>	\$1,420.8	3.49%	\$1,388.0	3.69%	\$ (23.5)

- (1) The average balances presented are derived based on month end balances during the year. Tax exempt income was not significant in any of the years presented. Average rates are impacted by FSA accretion and amortization.
- (2) The rate presented is calculated net of average credit balances for factoring clients.
- (3) Non-accrual loans and related income are included in the respective categories.
- (4) Operating lease rental income is a significant source of revenue; therefore, we have presented the rental revenues net of depreciation and net of Maintenance and other operating lease expenses.
- (5) Interest and average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments, and accelerated original issue discount on debt extinguishment related to the GSI facility.

Interest income on interest bearing deposits, securities purchased under agreements to resell and investment securities was not significant in any of the years presented. Average interest bearing deposits was down reflecting the investment of cash in various types of investment securities to earn a higher yield. Investments are typically a combination of high quality debt, primarily U.S. Treasury securities, U.S. Government Agency securities, and supranational and foreign government securities that typically mature in 91 days or less. In addition, during 2014 we initiated the investment in securities purchased under agreements to resell.

**Item 6: Selected Financial Data**

**Table of Contents**

**32 CIT ANNUAL REPORT 2014**

Average rates on loans and operating lease equipment decreased from 2013 and 2012, due to new business yields that are generally lower than maturing loans, sales of higher-yielding portfolios, lower suspended depreciation, lower yield-related fees and lower FSA accretion. While interest income on loans benefited in 2014 from higher balances, interest income was down from 2013 and 2012 reflecting lower FSA accretion, which totaled \$31 million in 2014, \$61 million in 2013 and \$212 million in 2012, change in product mix in NACF and sales of higher-yielding portfolios in NSP.

Net operating lease revenue was primarily generated from the commercial air and rail portfolios. Net operating lease revenue increased in 2014 compared to 2013, as the benefit of increased assets from the growing aerospace and rail portfolios offset lower rental rates on aircraft, higher depreciation expense reflecting asset growth, and increased maintenance and other operating lease expenses. Net operating lease revenue decreased in 2013 from 2012. Higher revenues, from the growth in the aerospace and rail portfolios, were more than offset by the increased depreciation and higher maintenance and operating lease expenses.

Rental income in 2014 increased from 2013 and 2012, reflecting the growing portfolio. On average, lease renewal rates in the rail portfolio were re-pricing slightly higher, while the commercial aircraft portfolio had been re-pricing slightly lower.

Accretion of FSA discounts on long-term borrowings increased interest expense by \$53 million, \$69 million and \$1.5 billion for the years ended December 31, 2014, 2013 and 2012, respectively. Included in these balances are accelerated amounts related to the repayment of certain debt securities. The 2012 accelerated debt FSA accretion resulted from repayments of \$15 billion of Series A and C Notes that was repaid in the first three quarters and \$1.0 billion of secured debt repaid in the last quarter of 2012.

As a result of our debt redemption activities and the increased proportion of deposits to total funding, we reduced weighted average coupon rates of outstanding deposits and long-term borrowings to 3.11% at December 31, 2014 from 3.33% at December 31, 2013

## Edgar Filing: CIT GROUP INC - Form 10-K

and 3.52% at December 31, 2012.

The weighted average coupon rate of long-term borrowings at December 31, 2014 was 4.32%, compared to 4.47% at December 31, 2013 and 4.45% at December 31, 2012. Long-term borrowings consist of unsecured and secured debt. The weighted average coupon rate of unsecured long-term borrowings at December 31, 2014 was 5.00%, compared to 5.11% at December 31, 2013 and 5.12% at December 31, 2012. The weighted average coupon rate of secured long-term borrowings at December 31, 2014 was 3.10%, compared to 3.12% at December 31, 2013 and 3.23% at December 31, 2012.

Deposits have increased, both in dollars and proportion of total CIT funding to 46% at December 31, 2014, compared to 40% at December 31, 2013 and 35% at December 31, 2012. The weighted average coupon rate of total CIT deposits at December 31, 2014 was 1.69%, compared to 1.65% at December 31, 2013 and 1.75% at December 31, 2012.

The table below disaggregates CIT's year-over-year changes (2014 versus 2013 and 2013 versus 2012) in net interest revenue and operating lease margins as presented in the preceding tables between volume (level of lending or borrowing) and rate (rates charged customers or incurred on borrowings). See "Net Finance Revenue" section for further discussion.

### Changes in Net Finance Revenue (dollars in millions)

	2014 Compared to 2013			2013 Compared to 2012		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net
<b>Interest Income</b>						
Loans (including held for sale)						
U.S.	\$ 125.9	\$ (76.1)	\$ 49.8	\$ 141.7	\$ (239.9)	\$ (98.2)
Non-U.S.	(74.8)	(10.3)	(85.1)	8.5	(45.8)	(37.3)
Total loans	51.1	(86.4)	(35.3)	150.2	(285.7)	(135.5)
Interest bearing deposits	(0.6)	1.7	1.1	(2.7)	(2.4)	(5.1)
Securities purchased under agreements to resell	1.3	—	1.3	—	—	—
Investments	(2.2)	6.4	4.2	3.7	(1.9)	1.8
Interest income	49.6	(78.3)	(28.7)	151.2	(290.0)	(138.8)
Operating lease equipment, net (including held for sale) <sup>(1)</sup>	175.7	(88.9)	86.8	29.7	(84.2)	(54.5)
<b>Interest Expense</b>						
Interest on deposits	45.5	5.7	51.2	56.1	(28.8)	27.3
Interest on long-term borrowings <sup>(2)</sup>	24.7	(50.6)	(25.9)	(93.7)	(1,538.4)	(1,632.1)
Interest expense	70.2	(44.9)	25.3	(37.6)	(1,567.2)	(1,604.8)
Net finance revenue	\$ 155.1	\$ (122.3)	\$ 32.8	\$ 218.5	\$ 1,193.0	\$ 1,411.5

<sup>(1)</sup> Operating lease rental income is a significant source of revenue; therefore, we have presented the net revenues.

<sup>(2)</sup> Includes acceleration of FSA accretion resulting from redemptions or extinguishments and accelerated original issue discount on debt extinguishment related to the TRS facility.

**Average Daily Long-term Borrowings Balances and Rates** (dollars in millions)

Unsecured	Years Ended								
	December 31, 2014			December 31, 2013			December 31, 2012		
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)
Revolving Credit Facility <sup>(1)</sup>	\$ —	\$ 14.1	—	\$ —	\$ 15.6	—	\$ 284.1	\$ 18.6	6.56%
Senior Unsecured Notes	12,382.9	635.0	5.13%	12,107.0	660.0	5.45%	12,957.2	1,613.8	12.45%
Secured borrowings Series A Notes	6,184.0	206.1	3.33%	5,938.8	205.5	3.46%	6,121.9	197.0	3.22%
<b>Total Long-term Borrowings</b>	<b>\$ 18,566.9</b>	<b>\$ 855.2</b>	<b>4.61%</b>	<b>\$ 18,045.8</b>	<b>\$ 881.1</b>	<b>4.88%</b>	<b>\$ 20,219.4</b>	<b>\$ 2,513.2</b>	<b>12.43%</b>

<sup>(1)</sup> Interest expense and average rate includes Facility commitment fees and amortization of Facility deal costs.

**Item 6: Selected Financial Data****Table of Contents**

34 CIT ANNUAL REPORT 2014

## Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations and

### Item 7A. Quantitative and Qualitative Disclosures about Market Risk

**BACKGROUND**

CIT Group Inc., together with its subsidiaries ("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 in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. We had over \$35 billion of financing and leasing assets at December 31, 2014. CIT became a bank holding company ("BHC") in December 2008 and a financial holding company ("FHC") in July 2013.

CIT is regulated by the Board of Governors of the Federal Reserve System ("FRB") and the Federal Reserve Bank of New York ("FRBNY") under the U.S. Bank Holding Company Act of 1956. CIT Bank (the "Bank"), a wholly-owned subsidiary, is a Utah state chartered bank located in Salt Lake City that offers commercial financing and leasing products as well as a suite of savings options and is subject to regulation by the Federal Depository Insurance Corporation ("FDIC") and the Utah Department of Financial

Institutions (“UDFI”).

On July 22, 2014, we announced that we had entered into a definitive agreement and plan of merger to acquire IMB Holdco LLC, the parent company of OneWest Bank, N.A. (“OneWest Bank”) for approximately \$3.4 billion (the “OneWest Transaction”), consisting of approximately \$2 billion in cash and 31.3 million shares of CIT Group Inc. common stock, which had a value of \$1.4 billion at the time of the announcement, but will vary depending upon the share price at the time of closing. IMB Holdco is regulated by the FRB and OneWest Bank is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury (“OCC”). The OneWest Transaction is subject to certain customary closing conditions and regulatory approval by the FRB and the OCC, but not shareholder vote. See *Pending Acquisition* included in Part I *Item 1. Business Overview* for further discussion of the transaction.

The consolidated financial statements include the effects of adopting Fresh Start Accounting (“FSA”) upon the Company’s emergence from bankruptcy on December 10, 2009, based on a convenience date of December 31, 2009, as required by U.S. GAAP. Accretion and amortization of certain FSA adjustments are included in the consolidated Statements of Operations, primarily impacting discussions on Net Finance Revenue, and were more prominent in prior years. See Fresh Start Accounting and *Note 1 – Business and Summary of Significant Accounting Policies* in *Item 8 Financial Statements and Supplementary Data* for further discussion.

“*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and “*Quantitative and Qualitative Disclosures about Market Risk*” contain financial terms that are relevant to our business and a glossary of key terms used is included in Part I *Item 1. Business Overview*.

Management uses certain non-GAAP financial measures in its analysis of the financial condition and results of operations of the Company. See “*Non-GAAP Financial Measurements*” for a reconciliation of these to comparable financial measures based on accounting principles generally accepted in the United States of America (“GAAP”).

## SEGMENT REORGANIZATION

In December 2013, we announced organization changes that became effective January 1, 2014. In conjunction with management’s plans to (i) realign and simplify its businesses and organizational structure, (ii) streamline and consolidate certain business processes to achieve greater operating efficiencies, and (iii) leverage CIT’s operational capabilities for the benefit of its clients and customers, CIT manages its business and reports its financial results in three operating segments (the “New Segments”): (1) Transportation & International Finance (“TIF”); (2) North American Commercial Finance (“NACF”); and (3) Non-Strategic Portfolios (“NSP”). See *Note 25 – Business Segment Information* in *Item 8 Financial Statements and Supplementary Data* for additional information relating to the reorganization.

## DISCONTINUED OPERATION

On April 25, 2014, the Company completed the sale of the student lending business, which consisted of a portfolio of U.S. Government-guaranteed student loans that was in run-off, along with certain secured debt and servicing rights. As a result, the student lending business is reported as a discontinued operation and all data included has been adjusted to reflect this presentation. Income from the discontinued operation of \$52 million for 2014 reflected the benefit of proceeds received in excess of the net carrying value of assets and liabilities sold.

The business was previously included in the NSP segment. During the 2013 fourth quarter, management determined that it no longer had the intent to hold these assets until maturity and transferred the portfolio to assets held for sale (“AHFS”). See *Note 2 – Acquisition and Disposition Activities* in *Item 8 Financial Statements and Supplementary Data* for additional information relating to the discontinued operation.

*The following sections reflect the New Segments and discontinued operation. Unless specifically noted, the discussions and data presented throughout the following sections reflect CIT balances on a continuing operations basis.*

## 2014 FINANCIAL OVERVIEW

As discussed below, our 2014 operating results reflected increased business activity that resulted in asset growth, continued credit quality metrics at cyclical lows and strategic business decisions that elevated operating expenses.



**Net income** for 2014 totaled \$1,130 million, \$5.96 per diluted share, compared to \$676 million, \$3.35 per diluted share for 2013 and a net loss of \$592 million for 2012, \$2.95 per diluted share. Income from continuing operations (after taxes) for 2014 totaled \$1,078 million, \$5.69 per diluted share, compared to \$644 million, \$3.19 per diluted share for 2013 and a loss of \$536 million, \$2.67 per diluted share, in 2012.

Net income for 2014 included \$419 million, \$2.21 per diluted share, of income tax benefits associated with partial reversals of valuation allowances on certain domestic and international deferred tax assets. In addition, the tax provision benefited by approximately \$30 million related to the acquisition of Direct Capital. Net income also reflected continued high level of impairment charges related to the progress

## Table of Contents

CIT ANNUAL REPORT 2014 35

made exiting certain portfolios. The net loss in 2012 included \$1.3 billion (pre-tax) of debt redemption charges and OID acceleration, resulting from significant extinguishments of high cost debt.

**Income from continuing operations, before provision for income taxes** totaled \$681 million for 2014, down from \$734 million for 2013 and improved from a pre-tax loss in 2012. As detailed in the following table, adjusted pre-tax income, excluding debt redemption charges and loss on debt extinguishments<sup>(1)</sup>, was down from both 2013 and 2012. The 2014 pre-tax results were dampened by impairment charges on AHFS, mostly related to international assets in the NSP segment, and an increase in the provision for credit losses. The 2013 decline from 2012 reflected a lower benefit from FSA accretion and a decline in other income, partially offset by improved funding costs.

The following table presents pre-tax results adjusted for debt redemption charges, a non-GAAP measurement.

### **Pre-tax Income (Loss) from Continuing Operations Excluding Debt Redemption Charges** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Pre-tax income/(loss) from continuing operations	\$ 680.8	\$ 734.2	\$ (415.4)
Accelerated FSA net discount/(premium) on debt extinguishments and repurchases	34.7	34.6	1,294.9
Debt related – loss on debt extinguishments	3.5	–	61.2
Accelerated OID on debt extinguishments related to the GSI facility	(42.0)	(5.2)	(6.9)
Debt redemption charges and OID acceleration	(3.8)	29.4	1,349.2
Pre-tax income from continuing operations – excluding debt redemption charges and OID acceleration <sup>(1)</sup>	\$ 677.0	\$ 763.6	\$ 933.8

**Net finance revenue**<sup>(2)</sup> (“NFR”) was \$1.4 billion in 2014, slightly up from 2013 and up from (\$23) million in 2012. Growth in Average earning assets<sup>(3)</sup> (“AEA”) and improved funding costs increased NFR in 2014 and 2013. The negative NFR for 2012 was driven by the acceleration of FSA discount accretion resulting from extinguishments of over \$15 billion high cost debt. AEA was \$33.4 billion in 2014, up from \$30.1 billion in 2013 and from \$27.6 billion in 2012.

Net Finance Margin (“NFM”) for 2014 was at the high-end of our near-term outlook benefiting from lower funding costs and continued prepayment benefits, which was offset by portfolio re-pricing. NFM excluding debt redemption charges<sup>(4)</sup> was 4.23% for 2014, down

from 4.71% for 2013 and 4.58% in 2012. The reduction from 2013 primarily reflects portfolio re-pricing, the sale of higher-yielding asset portfolios, and declines in net FSA accretion, partially offset by improved funding costs. While other institutions may use net interest margin (“NIM”), defined as interest income less interest expense, we discuss NFM, which includes operating lease rental revenue and depreciation expense, due to their significant impact on revenue and expense. Net operating lease revenue was up modestly from 2013 and 2012, as increased revenue earned on higher average assets and consistently high aircraft and railcar utilization rates offset higher depreciation expense and maintenance and other operating lease expenses and lower aerospace remarketing lease rates.

**Provision for credit losses** for 2014 was \$100 million, up from \$65 million last year and \$51 million in 2012, reflecting lower recoveries and higher non-specific reserves, primarily due to asset growth. The allowance for loan losses as a percent of finance receivables was 1.78%, 1.91% and 2.21% as of December 31, 2014, 2013 and 2012, respectively.

**Other income** of \$305 million decreased from \$381 million in 2013 and \$615 million in 2012, largely due to reduced gains on assets sold and higher losses on derivative and foreign currency exchange.

**Operating expenses** were \$942 million, down from \$970 million in 2013 and up from \$894 million in 2012. Operating expenses excluding restructuring costs<sup>(5)</sup> were \$910 million, \$933 million and \$871 million for 2014, 2013 and 2012, respectively. The decline from 2013 was due to the \$50 million tax agreement settlement charge in that year. Absent that charge, operating expenses excluding restructuring costs increased by 3% from 2013, as a result of integration-related costs and additional employee costs associated with the Direct Capital and Nacco acquisitions, which were partially offset by expense reduction initiatives. Headcount at December 31, 2014, 2013 and 2012 was approximately 3,360, 3,240, and 3,560, respectively, with the current year increase reflecting the headcount associated with the noted acquisitions.

**Provision for income taxes** was a benefit of \$398 million in 2014 reflecting \$375 million relating to a partial reversal of the U.S. Federal deferred tax asset valuation allowance, approximately \$44 million related to the reversal of valuation allowance for certain international net deferred tax assets, approximately \$30 million benefit related to the acquisition of Direct Capital, and net income tax expense on state and international earnings. Beginning in 2015, the Company expects to report deferred income tax expense on its domestic earnings after the above mentioned partial release of its domestic valuation allowances on net deferred tax assets. Management expects that this will result in a global effective tax rate in the range of 30-35%. The provision for income taxes was \$84 million for 2013 and \$117 million for 2012, as described in “*Income Taxes*” section.

**Total assets** of continuing operations<sup>(6)</sup> at December 31, 2014 were \$47.9 billion, up from \$43.3 billion at December 31, 2013 and \$39.8 billion at December 31, 2012. Financing and leasing assets (“FLA”)

---

<sup>(1)</sup> *Pre-tax income from continuing operations excluding debt redemption charges and loss on debt extinguishments is a non-GAAP measure. See “Non-GAAP Financial Measurements” for reconciliation of non-GAAP to GAAP financial information.*

<sup>(2)</sup> *Net finance revenue is a non-GAAP measure; see “Non-GAAP Financial Measurements” for a reconciliation of non-GAAP to GAAP financial information.*

<sup>(3)</sup> *Average earning assets is a non-GAAP measure; see “Non-GAAP Financial Measurements” for a reconciliation of non-GAAP to GAAP financial information.*

<sup>(4)</sup> *Net finance margin excluding debt redemption charges is a non-GAAP measure. See “Non-GAAP Financial Measurements” for reconciliation of non-GAAP to GAAP financial information. Debt redemption charges include accelerated fresh start accounting debt discount amortization, accelerated original issue discount (“OID”) on debt extinguishment related to the GSI facility, and prepayment costs.*

<sup>(5)</sup> *Operating expenses excluding restructuring charges is a non-GAAP measure; see “Non-GAAP Financial Measurements” for reconciliation of non-GAAP to GAAP financial information.*

<sup>(6)</sup> Total assets from continuing operations is a non-GAAP measure. See "Non-GAAP Measurements" for reconciliation of non-GAAP to GAAP financial information.

**Item 7: Management's Discussion and Analysis**

**Table of Contents**

**36** CIT ANNUAL REPORT 2014

increased to \$35.6 billion, up from \$32.7 billion at December 31, 2013, and \$30.2 billion at December 31, 2012, as new origination volume and business acquisitions more than offset collections and sales. Cash totaled \$7.1 billion, compared to \$6.0 billion at December 31, 2013 and \$6.7 billion at December 31, 2012. Investment securities and securities purchased under resale agreements totaled \$2.2 billion at December 31, 2014, compared to \$2.6 billion and \$1.1 billion at December 31, 2013 and 2012, respectively. During February 2015, \$1.2 billion of cash was used to repay maturing unsecured notes.

*Credit metrics* remained at or near cycle lows. Non-accrual balances declined to \$161 million (0.82% of finance receivables) at December 31, 2014 from \$241 million (1.29%) a year ago and \$330 million (1.92%) at December 31, 2012. Net charge-offs in 2014 increased due to lower recoveries and loans transferred to AHFS. Net charge-offs were \$99 million (0.52% of average finance receivables (AFR)) and included \$43 million related to loans transferred to AHFS, compared to \$81 million (0.44%), which included \$39 million related to loans transferred to AHFS, in 2013 and \$74 million (0.46%) in 2012.

**2014 PRIORITIES**

Our priorities in 2014 focused on achieving our profitability targets by growing earning assets and managing expenses, growing CIT Bank assets and deposits, and returning capital to our shareholders.

**1. Grow Earning Assets**

We grew earning assets, organically and through acquisitions, by focusing on existing products and markets as well as newer initiatives.

- Financing and leasing assets ("FLA") totaled \$35.6 billion, up from \$32.7 billion at December 31, 2013. TIF and NACF comprise the vast majority of the assets and totaled \$35.3 billion, up \$3.9 billion from December 31, 2013, driven by solid origination volumes, supplemented by \$1.2 billion of financing and leasing assets from acquisitions (at the time of the acquisitions). NSP makes up the remaining balance of FLA, which declined \$0.9 billion during 2014, and is expected to continue to decline as portfolios are sold or liquidated.

**2. Achieve Profit Targets**

The 2014 pre-tax return on AEA was 2.04%, slightly above our near-term outlook of approximately 2.00%.

- NFM of 4.25% was at the high end of our near-term outlook range of 3.75%-4.25%, benefiting from lower funding costs, suspended depreciation, interest recoveries and prepayments, but pressured by portfolio re-pricing.
- Other Income remained within our near-term outlook range of 0.75%-1.00% but was impacted by impairment charges on AHFS.
- Operating expenses were \$942 million, including restructuring charges of \$31 million. Excluding restructuring charges, operating expenses were 2.73% of AEA, above the near-term outlook range of 2.00%-2.50%, but improved from 2013. 2014 included costs associated with our Non-Strategic Portfolios as well as elevated costs from our strategic repositioning, including the Direct Capital and Nacco acquisitions, the OneWest integration planning and international exits.

- We made significant progress exiting low-return portfolios in 2014. We exited all the sub-scale portfolios in Asia, Europe and several in Latin America, as well as our Small Business Lending (“SBL”) and Student Loan (“SLX”) portfolios. In addition, we sold a TIF international loan portfolio in the U.K., and transferred another to AHFS.

### 3. Expand Bank Assets and Funding

CIT Bank funds most of our U.S. lending and leasing volume and continues to expand on-line deposit offerings.

- Total assets were \$21.1 billion at December 31, 2014, up from \$16.1 billion at December 31, 2013, reflecting new business volume and the acquisition of Direct Capital. CIT Bank funded \$7.8 billion of new business volume in 2014, up over 9% from 2013.
- Deposits at year end were \$15.9 billion, up from \$12.5 billion at December 31, 2013. The weighted average rate on outstanding deposits was 1.63% at December 31, 2014, up from 1.55% at December 31, 2013, primarily due to an increase in term deposits with longer maturities. Online deposits grew to 56% of total deposits from 49% in 2013.
- On July 22, 2014, CIT announced that it entered into a definitive agreement and plan of merger with IMB Holdco LLC, the parent company of OneWest Bank, N.A. (“OneWest Bank”), for \$3.4 billion in cash and stock. At December 31, 2014, OneWest Bank had approximately 70 branches in Southern California, with nearly \$22 billion of assets and over \$14 billion of deposits.

### 4. Continue to Return Capital

We continue to prudently deploy our capital, as well as return capital to our shareholders through share repurchases and dividends, which totaled approximately \$870 million in 2014, while maintaining strong capital ratios.

- During 2014, we repurchased over 17 million of our shares for an aggregate purchase price of \$775 million, at an average price of \$45.42. Through January 31, 2015, we repurchased an additional 4.7 million shares for an aggregate purchase price of \$212 million.
- In 2014, the Board of Directors approved share repurchases in aggregate of \$1.1 billion. After the 2015 purchases, \$114 million remained of the authorized repurchase capacity that expires on June 30, 2015.
- We paid dividends of approximately \$95 million in 2014. During 2014 we increased our quarterly dividend by 50% to \$0.15 per share and on January 21, 2015, the Board approved CIT’s quarterly cash dividend of \$0.15 per share, payable in February 2015.

## 2015 PRIORITIES

During 2015, we will focus on continuing to create long term value for shareholders.

Specific business objectives established for 2015 include:

- Expand Our Commercial Banking Franchise — We will work to complete and integrate the OneWest Bank acquisition and enhance our commercial banking operations.

---

## Table of Contents

## Edgar Filing: CIT GROUP INC - Form 10-K

**Maintain Strong Risk Management Practices** — We will continue to maintain credit discipline focused on maintaining appropriate risk-adjusted returns through the business cycle and continue enhancements in select areas for SIFI Readiness.

- **Grow Business Franchises** — We will concentrate our growth on building franchises that meet or exceed our risk adjusted return hurdles and improve profitability by exiting non-strategic portfolios (mainly Mexico and Brazil, and the equipment finance business in the U.K.).
- **Realize embedded value** — We will focus on enhancing our economic returns, which would improve the utilization of our U.S. NOL, thereby reducing the net deferred tax asset, and increase regulatory capital.
- **Return Excess Capital** — We plan to prudently return capital to our shareholders through share repurchases and dividends, while maintaining strong capital ratios.

### PERFORMANCE MEASUREMENTS

The following chart reflects key performance indicators evaluated by management and used throughout this management discussion and analysis:

KEY PERFORMANCE METRICS	MEASUREMENTS
<i>Asset Generation</i> — to originate new business and grow earning assets.	<ul style="list-style-type: none"> <li>- New business volumes; and</li> <li>- Financing and leasing assets balances.</li> </ul>
<i>Revenue Generation</i> — lend money at rates in excess of cost of borrowing and consistent with risk profile of obligor, earn rentals on the equipment we lease commensurate with the risk, and generate other revenue streams.	<ul style="list-style-type: none"> <li>- Net finance revenue and other income;</li> <li>- Net finance margin;</li> <li>- Asset yields and funding costs; and</li> <li>- Operating lease revenue as a percentage of average operating lease equipment.</li> </ul>
<i>Credit Risk Management</i> — accurately evaluate credit worthiness of customers, maintain high-quality assets and balance income potential with loss expectations.	<ul style="list-style-type: none"> <li>- Net charge-offs, balances and as a percentage of AFR;</li> <li>- Non-accrual loans, balances and as a percentage of loans;</li> <li>- Classified assets and delinquencies balances; and</li> <li>- Loan loss reserve, balance and as a percentage of loans.</li> </ul>
<i>Equipment and Residual Risk Management</i> — appropriately evaluate collateral risk in leasing transactions and remarket or sell equipment at lease termination.	<ul style="list-style-type: none"> <li>- Equipment utilization;</li> <li>- Market value of equipment relative to book value; and</li> <li>- Gains and losses on equipment sales.</li> </ul>
<i>Expense Management</i> — maintain efficient operating platforms and related infrastructure.	<ul style="list-style-type: none"> <li>- Operating expenses and trends;</li> </ul>

- Operating expenses as a percentage of AEA; and

- Gross revenue as a percentage of AEA.

*Profitability* — generate income and appropriate returns to shareholders.

- Net income per common share (EPS);

- Net income and pre-tax income, each as a percentage of average earning assets (ROA); and

- Pre-tax income as a percentage of average tangible common equity (ROTCE).

*Capital Management* — maintain a strong capital position.

- Tier 1 and Total capital ratios; and

- Tier 1 capital as a percentage of adjusted average assets; (“Tier 1 Leverage Ratio”).

*Liquidity Management* — maintain access to ample funding at competitive rates to meet obligations as they come due.

- Levels of cash, securities purchased under resale agreements and certain short term investment securities;

- Committed and available funding facilities;

- Debt maturity profile; and

- Debt ratings.

*Manage Market Risk* — measure and manage risk to income statement and economic value of enterprise due to movements in interest and foreign currency exchange rates.

- Net Interest Income Sensitivity; and

- Economic Value of Equity (EVE).

**Item 7:** Management’s Discussion and Analysis

**Table of Contents**

**NET FINANCE REVENUE**

The following tables present management’s view of consolidated NFR and NFM and includes revenues from loans and leased equipment, net of interest expense and depreciation, in dollars and as a percent of AEA.

**Net Finance Revenue<sup>(1)</sup> and Net Finance Margin** (dollars in millions)

**Years Ended December 31,**

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
	2014	2013	2012
Interest income	\$ 1,226.5	\$ 1,255.2	\$ 1,394.0
Rental income on operating leases	2,093.0	1,897.4	1,900.8
Finance revenue	3,319.5	3,152.6	3,294.8
Interest expense	(1,086.2)	(1,060.9)	(2,665.7)
Depreciation on operating lease equipment	(615.7)	(540.6)	(513.2)
Maintenance and other operating lease expenses	(196.8)	(163.1)	(139.4)
Net finance revenue	\$ 1,420.8	\$ 1,388.0	\$ (23.5)
Average Earning Assets <sup>(1)(2)</sup> ("AEA")	\$ 33,394.7	\$ 30,122.5	\$ 27,608.6
<b>As a % of AEA:</b>			
Interest income	3.67%	4.16%	5.05%
Rental income on operating leases	6.27%	6.30%	6.88%
Finance revenue	9.94%	10.46%	11.93%
Interest expense	(3.25)%	(3.52)%	(9.66)%
Depreciation on operating lease equipment	(1.85)%	(1.79)%	(1.86)%
Maintenance and other operating lease expenses	(0.59)%	(0.54)%	(0.50)%
Net finance margin	4.25%	4.61%	(0.09)%

<sup>(1)</sup> NFR and AEA are non-GAAP measures; see "Non-GAAP Financial Measurements" sections for a reconciliation of non-GAAP to GAAP financial information.

<sup>(2)</sup> AEA are less than comparable balances displayed later in this document in 'Select Data' (Average Balances) due to the exclusion of deposits with banks and other investments and the inclusion of credit balances of factoring clients.

NFR and NFM are key metrics used by management to measure the profitability of our lending and leasing assets. NFR includes interest and yield-related fee income on our loans and capital leases, rental income and depreciation, maintenance and other operating lease expenses from our operating lease equipment, interest and dividend income on cash and investments, as well as funding costs. Since our asset composition includes a high level of operating lease equipment (43% of AEA for the year ended December 31, 2014), NFM is a more appropriate metric for CIT than net interest margin ("NIM") (a common metric used by other BHCs), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less depreciation) from operating leases.

NFR increased modestly from 2013, reflecting higher earning assets, which offset compression on portfolio yields as new business yields are generally lower than yields on maturing loans. The improvements from 2012 to 2013 was largely due to the negative impact of significantly higher debt FSA discount accretion in 2012 that resulted from repayments of high cost debt. The adjustments, accelerated debt FSA accretion and accelerated OID on debt extinguishment related to the GSI facility ("accelerated OID accretion"), are referred to as "accelerated debt FSA and OID accretion". As detailed in the following table, absent accelerated debt FSA and OID accretion and prepayment costs, adjusted NFR in 2014 was flat compared to 2013 and up from 2012, benefiting from lower funding costs and higher commercial assets.

The following table reflects NFR and NFM, before and after accelerated debt FSA and OID accretion and prepayment costs.

**Adjusted NFR<sup>(1)</sup> (\$) and NFM<sup>(1)</sup> (%) (dollars in millions)**

	Years Ended December 31,					
	2014		2013		2012	
NFR / NFM	\$ 1,420.8	4.25%	\$ 1,388.0	4.61%	\$ (23.5)	(0.09)%
Accelerated FSA net discount/(premium) on debt extinguishments and	34.7	0.10%	34.6	0.12%	1,294.9	4.69%

# Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

repurchases						
Accelerated OID on debt extinguishments related to the GSI facility	(42.0)	(0.12)%	(5.2)	(0.02)%	(6.9)	(0.02)%
Adjusted NFR and NFM	\$ 1,413.5	4.23%	\$ 1,417.4	4.71%	\$ 1,264.5	4.58%

<sup>(1)</sup> *Adjusted NFR and NFM are non-GAAP measures; see "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.*

## Table of Contents

CIT ANNUAL REPORT 2014 **39**

NFM and adjusted NFM declined from 2013 as margin compression and sales of higher yielding assets offset lower debt costs.

- Finance revenue rose in 2014 on increased earning assets. However, the margin trends reflect repricing at lower yields, a decline in benefit from FSA accretion and the sale in 2013 of a higher-yielding Dell Europe portfolio (within NSP), which benefited 2013 primarily from suspended depreciation on operating leases. AEA increased 11% from 2013. FSA accretion totaled \$31 million in 2014 and \$61 million in 2013. The remaining accretable discount was not significant at December 31, 2014. See *Fresh Start Accounting* section later in this document.
- Funding costs declined. Weighted average coupon rate of outstanding deposits and long-term borrowings was 3.11% at December 31, 2014, down from 3.33% at December 31, 2013, as the portion of our funding derived from deposits increased to 46% from 40% at December 31, 2013.
- NFM reflects the mentioned impacts to finance revenue and lower debt costs. During 2014, high levels of interest recoveries and prepayments continued to benefit NFM. NFM also benefited, though at a lower level, from suspended depreciation on operating lease equipment held for sale, as depreciation is not recorded while this equipment is held for sale (detailed further below). As we complete the NSP portfolio sales and aerospace asset sales to TC-CIT Aviation joint venture, the benefit to NFM from suspended depreciation will diminish.

The 2013 NFM was up from 2012, primarily reflecting lower accelerated debt FSA accretion while adjusted NFM improved over the 2012 margin on benefits from lower funding costs, continued high levels of interest recoveries and suspended depreciation, partially offset by lower FSA loan accretion and yield compression on certain assets.

- Lower finance revenue in 2013 reflected pressure on certain renewal lease rates in the commercial air portfolio and the sale of the Dell Europe portfolio, which contained higher-yielding assets. AEA increased 9% from 2012. Interest income was down from 2012 reflecting lower FSA accretion, which totaled \$61 million in 2013 and \$212 million in 2012.
- Interest recoveries, which result from events such as prepayments on or sales of non-accrual assets and assets returning to accrual status, and certain other yield-related fees, were elevated in 2012, and moderated in 2013.
- NFM benefited from suspended depreciation on operating lease equipment held for sale in 2013, since depreciation is not recorded while this equipment is held for sale. This benefit was down from 2012, primarily due to the sale of the Dell Europe portfolio in the third and fourth quarters. (Amounts detailed below).
- Lower funding costs at December 31, 2013 resulted from our liability management actions, which included paying off high cost debt in 2012 and increasing the proportion of deposits in our funding mix, as discussed further below.



## Edgar Filing: CIT GROUP INC - Form 10-K

- Net FSA accretion (excluding accelerated FSA on debt extinguishments and repurchases noted in the above table) increased NFR by \$212 million in 2013 and \$238 million in 2012.

Accretion of FSA discounts on long-term borrowings increased interest expense by \$53 million, \$69 million and \$1.5 billion for the years ended December 31, 2014, 2013 and 2012, respectively. Included in these balances are accelerated amounts. The 2014 accelerated debt FSA accretion mostly resulted from the repayment of secured debt under the GSI facility, while the 2013 accelerated debt FSA accretion resulted from the repayment of senior unsecured notes issued under our InterNotes retail note program. The 2012 accelerated debt FSA accretion resulted from repayments of \$15 billion of Series A and C Notes in the first three quarters and \$1.0 billion of secured debt in the last quarter of 2012. At December 31, 2014, the remaining FSA discount on long-term borrowings was not significant.

As a result of our debt redemption activities and the increased proportion of deposits to total funding, we reduced weighted average coupon rates of outstanding deposits and long-term borrowings to 3.11% at December 31, 2014 from 3.33% at December 31, 2013 and 3.52% at December 31, 2012.

The weighted average coupon rate of long-term borrowings at December 31, 2014 was 4.32%, compared to 4.47% at December 31, 2013 and 4.45% at December 31, 2012. Long-term borrowings consist of unsecured and secured debt. The weighted average coupon rate of unsecured long-term borrowings at December 31, 2014 was 5.00%, compared to 5.11% at December 31, 2013 and 5.12% at December 31, 2012. The weighted average coupon rate of secured long-term borrowings at December 31, 2014 was 3.10%, compared to 3.12% at December 31, 2013 and 3.23% at December 31, 2012.

Deposits have increased, both in dollars and proportion of total CIT funding to 46% at December 31, 2014 compared to 40% at December 31, 2013 and 35% at December 31, 2012. The weighted average coupon rate of total CIT deposits at December 31, 2014 was 1.69%, up from 1.65% at December 31, 2013, primarily due to an increase in term deposits with longer maturities, and down from 1.75% at December 31, 2012. Deposits and long-term borrowings are also discussed in Funding and Liquidity.

See *Select Financial Data (Average Balances)* section for more information on Long-term borrowing rates.

### Item 7: Management's Discussion and Analysis

#### Table of Contents

40 CIT ANNUAL REPORT 2014

The following table depicts select yields and margin related data for our segments, plus select divisions within TIF and NACF.

#### Select Segment and Division Margin Metrics (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
<b><u>Transportation &amp; International Finance</u></b>			
AEA	\$ 18,243.0	\$ 15,434.6	\$ 14,269.2
Gross yield	12.33%	12.55%	13.21%
NFM	4.84%	4.89%	0.02%
Adjusted NFM	4.80%	4.99%	4.45%
<b>AEA</b>			
<i>Aerospace</i>	\$ 10,467.4	\$ 9,317.9	\$ 9,358.3

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
<i>Rail</i>	\$ 5,581.9	\$ 4,332.4	\$ 3,905.3
<i>Maritime Finance</i>	\$ 670.0	\$ 300.1	\$ —
<i>International Finance</i>	\$ 1,523.7	\$ 1,484.2	\$ 1,005.6
<b>Gross yield</b>			
<i>Aerospace</i>	12.00%	12.23%	12.53%
<i>Rail</i>	14.75%	14.69%	14.87%
<i>Maritime Finance</i>	5.18%	7.83%	—
<i>International Finance</i>	8.92%	9.30%	13.01%
<b><u>North American Commercial Finance</u></b>			
AEA	\$ 14,319.5	\$ 12,916.2	\$ 11,362.7
Gross yield	6.49%	7.22%	9.47%
NFM	3.93%	4.44%	2.23%
Adjusted NFM	3.93%	4.50%	6.06%
<b>AEA</b>			
<i>Real Estate Finance</i>	\$ 1,687.6	\$ 1,119.0	\$ 257.5
<i>Corporate Finance</i>	\$ 7,138.2	\$ 6,710.2	\$ 6,229.5
<i>Equipment Finance</i>	\$ 4,526.4	\$ 4,083.3	\$ 3,787.8
<i>Commercial Services</i>	\$ 967.3	\$ 1,003.7	\$ 1,087.9
<b>Gross yield</b>			
<i>Real Estate Finance</i>	4.15%	4.19%	4.01%
<i>Corporate Finance</i>	5.30%	5.80%	8.15%
<i>Equipment Finance</i>	9.53%	10.82%	13.20%
<i>Commercial Services</i>	5.18%	5.47%	5.30%
<b><u>Non-Strategic Portfolios</u></b>			
AEA	\$ 832.2	\$ 1,771.7	\$ 1,976.7
Gross yield	15.16%	15.14%	15.96%
NFM	3.57%	5.97%	1.14%
Adjusted NFM	3.57%	6.27%	3.14%

**Table of Contents**

CIT ANNUAL REPORT 2014 41

Gross yields (interest income plus rental income on operating leases as a % of AEA) and NFM in TIF were modestly down from 2013, reflecting lower rental rates on certain aircraft, while the increase in adjusted NFM from 2012 reflect improved funding costs. NACF gross yields and NFM reflect continued pressures within Corporate Finance and Equipment Finance. NSP contains run-off portfolios, which can cause volatility in the gross yield due to the low AEA.

The following table sets forth the details on net operating lease revenues<sup>(7)</sup>.

**Net Operating Lease Revenue as a % of Average Operating Leases** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

Rental income on operating leases	\$ 2,093.0	14.41%	\$ 1,897.4	15.22%	\$ 1,900.8	15.74%
Depreciation on operating lease equipment	(615.7)	(4.24)%	(540.6)	(4.33)%	(513.2)	(4.25)%
Maintenance and other operating lease expenses	(196.8)	(1.35)%	(163.1)	(1.31)%	(139.4)	(1.15)%
Net operating lease revenue and % of AOL	\$ 1,280.5	8.82%	\$ 1,193.7	9.58%	\$ 1,248.2	10.34%
Average Operating Lease Equipment ("AOL")	\$ 14,524.4		\$ 12,463.8		\$ 12,072.9	

Net operating lease revenue was primarily generated from the commercial air and rail portfolios. Net operating lease revenue increased in 2014 compared to 2013, as the benefit of increased assets from the growing aerospace and rail portfolios offset lower rental rates, higher depreciation expense, and increased maintenance and other operating lease expenses. Net operating lease revenue decreased in 2013 from 2012, reflecting increased depreciation, which included residual adjustments, and higher maintenance and operating lease expenses from the rail portfolio growth, along with lower renewal rates.

Rental income in 2014 increased from 2013 and 2012, reflecting the growing portfolio. On average, lease renewal rates in the rail portfolio were re-pricing slightly higher, while the commercial aircraft portfolio has been re-pricing slightly lower.

Commercial aircraft utilization remained strong throughout 2014 with 99% of our portfolio leased or under a commitment to lease, consistent with 2013 and 2012. During 2014, our rail fleet utilization remained strong. Including commitments, rail fleet utilization was 99% at December 31, 2014, up from December 31, 2013 and 2012.

We have 16 new aircraft deliveries scheduled for 2015, substantially all of which have lease commitments with customers. We expect delivery of approximately 7,000 railcars from our order book during 2015, about 90% of which are placed.

Depreciation on operating lease equipment increased from 2013 and 2012, mostly reflecting higher transportation equipment balances. Depreciation expense also includes amounts related to equipment impairments. Depreciation expense is adjusted when projected fair value at the end of the lease term or estimated useful life is below the projected book value at the end of the lease term or estimated useful life. The prior years, 2013 and 2012, benefited from lower depreciation expense, primarily in NSP business, as a result of certain operating lease equipment being recorded as held for sale. Once a long-lived asset is classified as assets held for sale, depreciation expense is no longer recognized, but the asset is evaluated for impairment with any such charge recorded in other income. (See "Non-interest Income — Impairment on assets held for sale" for discussion on impairment charges). Consequently, net operating lease revenue includes rental income on operating lease equipment classified as assets held for sale, but there is no related depreciation expense. NFM continued to benefit from suspended depreciation due to the portfolio sales activity in NSP and aerospace assets held for sale related to the TC-CIT Aviation joint venture. The amount of suspended depreciation on operating lease equipment in assets held for sale totaled \$23 million for 2014, \$73 million for 2013 and \$96 million for 2012. The decrease from 2012 primarily reflects the sale of the Dell Europe portfolio in the third and fourth quarters of 2013.

The increasing maintenance and other operating lease expenses primarily relate to the growing rail portfolio, and to a lesser extent, aircraft re-leasing.

The factors described in rental income, depreciation, and maintenance and other operating lease expenses are driving the decrease in the net operating lease revenue as a percent of AOL, as the higher revenue from the growth in assets is offset by the lower rental rates. The 2014 first quarter European rail acquisition also impacted net yields, as the acquired portfolio's net yields were lower than the overall portfolio.

Operating lease equipment in assets held for sale totaled \$440 million at December 31, 2014, primarily reflecting aerospace assets. Operating lease equipment in assets held for sale totaled \$205 million at December 31, 2013 and \$344 million at December 31, 2012, which included the Dell Europe platform assets that were sold in 2013.

See "Expenses — Depreciation on operating lease equipment" and "Concentrations — Operating Leases" for additional information.

(7) *Net operating lease revenue is a non-GAAP measure. See "Non-GAAP Financial Measurements" for a reconciliation of non-GAAP to GAAP financial information.*

## Item 7: Management's Discussion and Analysis

### Table of Contents

42 CIT ANNUAL REPORT 2014

## CREDIT METRICS

Credit metrics remain at or near cyclical lows, and given current levels, sequential quarterly movements in non-accrual loans and charge-offs are subject to volatility as individual larger accounts migrate in and out of non-accrual status or get resolved.

Non-accrual loans declined to \$161 million (0.82% of finance receivables) from \$241 million (1.29%) at December 31, 2013 and \$330 million (1.92%) at December 31, 2012. The decrease reflects the sale of the Small Business Lending unit, repayments, charge-offs, and returns to accrual status where appropriate.

The provision for credit losses was \$100 million for the current year, up from \$65 million in 2013 and \$51 million in 2012. The 2014 provision reflects lower recoveries and higher non-specific reserves, primarily due to asset growth. The increase in 2013 from 2012 reflected asset growth and charge-offs due to loans transferred to AHFS.

Net charge-offs were \$99 million (0.52% as a percentage of average finance receivables) in 2014, versus \$81 million (0.44%) in 2013 and \$74 million (0.46%) in 2012. Net charge-offs include \$43 million in 2014 and \$39 million in 2013 related to the transfer of receivables to assets held for sale. Absent AHFS transfer related charge-offs, net charge-offs were 0.29% and 0.23% for the years ended December 31, 2014 and 2013, respectively. Recoveries have continued to decline, totaling \$28 million in 2014, down from \$58 million in 2013 and \$68 million in 2012, driven by the lower levels of gross charge-offs in recent periods. Gross Charge-offs were \$128 million (0.67%) in 2014 versus \$139 million in 2013 (0.76%) and \$142 million (0.88%) in 2012.

The following table presents detail on our allowance for loan losses, including charge-offs and recoveries and provides summarized components of the provision and allowance:

### **Allowance for Loan Losses and Provision for Credit Losses** (dollars in millions)

	Years ended December 31,				
	2014	2013	2012	2011	2010
<b>Allowance – beginning of period</b>	\$ 356.1	\$ 379.3	\$ 407.8	\$ 416.2	\$ –
Provision for credit losses <sup>(1)</sup>	100.1	64.9	51.4	269.7	802.1
Change related to new accounting guidance <sup>(2)</sup>	–	–	–	–	68.6
Other <sup>(1)</sup>	(10.7)	(7.4)	(5.8)	(12.9)	(8.2)
Net additions	89.4	57.5	45.6	256.8	862.5
Gross charge-offs <sup>(3)</sup>	(127.5)	(138.6)	(141.7)	(368.8)	(492.0)
Recoveries <sup>(4)</sup>	28.4	57.9	67.6	103.6	45.7

Edgar Filing: CIT GROUP INC - Form 10-K

Years ended December 31,

Net Charge-offs	(99.1)	(80.7)	(74.1)	(265.2)	(446.3)
<b>Allowance – end of period</b>	<b>\$ 346.4</b>	<b>\$ 356.1</b>	<b>\$ 379.3</b>	<b>\$ 407.8</b>	<b>\$ 416.2</b>
<b>Provision for credit losses</b>					
Specific reserves on impaired loans	\$ (18.0)	\$ (14.8)	\$ (9.4)	\$ (66.7)	\$ 121.3
Non-specific reserves	19.0	(1.0)	(13.3)	71.2	234.5
Net charge-offs	99.1	80.7	74.1	265.2	446.3
Total	\$ 100.1	\$ 64.9	\$ 51.4	\$ 269.7	\$ 802.1
<b>Allowance for loan losses</b>					
Specific reserves on impaired loans	\$ 12.4	\$ 30.4	\$ 45.2	\$ 54.6	\$ 121.3
Non-specific reserves	334.0	325.7	334.1	353.2	294.9
Total	\$ 346.4	\$ 356.1	\$ 379.3	\$ 407.8	\$ 416.2
<b>Ratio</b>					
Allowance for loan losses as a percentage of total loans	1.78%	1.91%	2.21%	2.68%	2.51%

- (1) The provision for credit losses includes amounts related to reserves on unfunded loan commitments, unused letters of credit, and for deferred purchase agreements, all of which are reflected in other liabilities, as well as foreign currency translation adjustments. The items included in other liabilities totaled \$35 million, \$28 million, \$23 million, \$22 million and \$12 million at December 31, 2014, 2013, 2012, 2011 and 2010, respectively.
- (2) Reflects reserves associated with loans consolidated in accordance with 2010 adoption of accounting guidance on consolidation of variable interest entities.
- (3) Gross charge-offs included \$43 million and \$39 million of charge-offs related to the transfer of receivables to assets held for sale for the year ended December 31, 2014 and 2013, respectively. Prior year amounts were not significant.
- (4) Recoveries for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 do not include \$20 million, \$22 million, \$54 million, \$124 million and \$279 million, respectively, of recoveries of loans charged off pre-emergence and loans charged off prior to the transfer to assets held for sale, which are included in Other Income.

**Table of Contents**

CIT ANNUAL REPORT 2014 43

The allowance rate reflects the relatively benign credit environment. NSP currently carries no reserves, as the portfolio consists almost entirely of AHFS. The decline in specific allowance is consistent with reduced non-accrual inflows and the reversal of reserves related to the resolution of a small number of larger accounts in NACF.

See Note 1 — Business and Summary of Significant Accounting Policies for discussion on policies relating to the allowance for loan losses, and Note 4 — Allowance for Loan Losses for additional segment related data in Item 8 Financial Statements and Supplementary Data and Critical Accounting Estimates for further analysis of the allowance for credit losses.

**Segment Finance Receivables and Allowance for Loan Losses** (dollars in millions)

Finance Receivables	Allowance for Loan Losses	Net Carrying Value
---------------------	---------------------------	--------------------

<b>December 31, 2014</b>			
Transportation & International Finance	\$ 3,558.9	\$ (46.8)	\$ 3,512.1
North American Commercial Finance	15,936.0	(299.6)	15,636.4
Non-Strategic Portfolio	0.1	—	0.1
<b>Total</b>	<b>\$ 19,495.0</b>	<b>\$ (346.4)</b>	<b>\$ 19,148.6</b>
<b>December 31, 2013</b>			
Transportation & International Finance	\$ 3,494.4	\$ (46.7)	\$ 3,447.7
North American Commercial Finance	14,693.1	(303.8)	14,389.3
Non-Strategic Portfolio	441.7	(5.6)	436.1
<b>Total</b>	<b>\$ 18,629.2</b>	<b>\$ (356.1)</b>	<b>\$ 18,273.1</b>
<b>December 31, 2012</b>			
Transportation & International Finance	\$ 2,556.5	\$ (44.3)	\$ 2,512.2
North American Commercial Finance	13,084.4	(293.7)	12,790.7
Non-Strategic Portfolio	1,512.2	(41.3)	1,470.9
<b>Total</b>	<b>\$ 17,153.1</b>	<b>\$ (379.3)</b>	<b>\$ 16,773.8</b>
<b>December 31, 2011</b>			
Transportation & International Finance	\$ 1,848.1	\$ (36.3)	\$ 1,811.8
North American Commercial Finance	11,894.7	(309.8)	11,584.9
Non-Strategic Portfolio	1,483.0	(61.7)	1,421.3
<b>Total</b>	<b>\$ 15,225.8</b>	<b>\$ (407.8)</b>	<b>\$ 14,818.0</b>
<b>December 31, 2010</b>			
Transportation & International Finance	\$ 1,754.5	\$ (22.6)	\$ 1,731.9
North American Commercial Finance	13,238.2	(313.7)	12,924.5
Non-Strategic Portfolio	1,620.2	(79.9)	1,540.3
<b>Total</b>	<b>\$ 16,612.9</b>	<b>\$ (416.2)</b>	<b>\$ 16,196.7</b>

**Item 7: Management's Discussion and Analysis****Table of Contents**

44 CIT ANNUAL REPORT 2014

The following table presents charge-offs, by class. See *Results by Business Segment* for additional information.

**Charge-offs as a Percentage of Average Finance Receivables by Class** (dollars in millions)

	Years Ended December 31,									
	2014		2013		2012		2011		2010	
<b>Gross Charge-offs</b>										
Transportation Finance	\$ 0.7	0.03%	\$ —	—	\$ 0.9	0.08%	\$ 1.1	0.11%	\$ 4.8	0.36%
	44.1	3.34%	26.0	1.76%	14.8	1.50%	16.9	2.48%	33.0	9.08%

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

International Finance										
Transportation & International Finance <sup>(1)</sup>	44.8	1.25%	26.0	0.84%	15.7	0.71%	18.0	1.06%	37.8	2.21%
Corporate Finance	29.7	0.42%	21.9	0.33%	37.8	0.61%	147.9	2.58%	130.4	1.62%
Equipment Finance	35.8	0.84%	32.0	0.82%	52.5	1.44%	125.8	3.03%	126.1	1.66%
Real Estate Finance	—	—	—	—	—	—	6.7	35.14%	24.7	15.16%
Commercial Services	9.7	0.41%	4.4	0.19%	8.6	0.36%	21.1	0.85%	29.8	1.12%
North American Commercial Finance <sup>(2)</sup>	75.2	0.49%	58.3	0.42%	98.9	0.80%	301.5	2.44%	311.0	1.68%
Non-Strategic Portfolio <sup>(3)</sup>	7.5	4.91%	54.3	4.82%	27.1	1.81%	49.3	3.23%	143.2	10.21%
<b>Total</b>	<b>\$ 127.5</b>	<b>0.67%</b>	<b>\$ 138.6</b>	<b>0.76%</b>	<b>\$ 141.7</b>	<b>0.88%</b>	<b>\$ 368.8</b>	<b>2.36%</b>	<b>\$ 492.0</b>	<b>2.28%</b>
<b>Recoveries</b>										
Transportation Finance	\$ 0.2	0.01%	\$ 1.1	0.07%	\$ —	—	\$ 0.1	0.01%	\$ —	—
International Finance	6.9	0.53%	8.0	0.54%	8.7	0.88%	5.8	0.85%	4.2	1.16%
Transportation & International Finance	7.1	0.19%	9.1	0.29%	8.7	0.39%	5.9	0.35%	4.2	0.24%
Corporate Finance	0.5	0.01%	8.0	0.12%	8.3	0.13%	22.4	0.39%	8.2	0.10%
Equipment Finance	16.4	0.38%	24.0	0.61%	30.3	0.83%	42.9	1.03%	16.3	0.22%
Real Estate Finance	—	—	—	—	—	—	4.0	20.89%	0.2	0.18%
Commercial Services	2.1	0.09%	7.8	0.33%	7.8	0.33%	10.9	0.44%	1.2	0.04%
North American Commercial Finance	19.0	0.13%	39.8	0.29%	46.4	0.38%	80.2	0.65%	25.9	0.14%
Non-Strategic Portfolio	2.3	1.44%	9.0	0.81%	12.5	0.83%	17.5	1.15%	15.6	1.11%
<b>Total</b>	<b>\$ 28.4</b>	<b>0.15%</b>	<b>\$ 57.9</b>	<b>0.32%</b>	<b>\$ 67.6</b>	<b>0.42%</b>	<b>\$ 103.6</b>	<b>0.66%</b>	<b>\$ 45.7</b>	<b>0.21%</b>
<b>Net Charge-offs</b>										
Transportation Finance	\$ 0.5	0.02%	\$ (1.1)	(0.07)%	\$ 0.9	0.08%	\$ 1.0	0.10%	\$ 4.8	0.36%
International Finance	37.2	2.81%	18.0	1.22%	6.1	0.62%	11.1	1.63%	28.8	7.92%
Transportation & International Finance <sup>(1)</sup>	37.7	1.06%	16.9	0.55%	7.0	0.32%	12.1	0.71%	33.6	1.97%
Corporate Finance	29.2	0.41%	13.9	0.21%	29.5	0.48%	125.5	2.19%	122.2	1.52%
Equipment Finance	19.4	0.46%	8.0	0.21%	22.2	0.61%	82.9	2.00%	109.8	1.44%
Real Estate Finance	—	—	—	—	—	—	2.7	14.25%	24.5	14.98%
<b>Total</b>	<b>7.6</b>	<b>0.32%</b>	<b>(3.4)</b>	<b>(0.14)%</b>	<b>0.8</b>	<b>0.03%</b>	<b>10.2</b>	<b>0.41%</b>	<b>28.6</b>	<b>1.08%</b>

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

Commercial Services North American Commercial Finance <sup>(2)</sup>	56.2	0.36%	18.5	0.13%	52.5	0.42%	221.3	1.79%	285.1	1.54%
Non-Strategic Portfolio <sup>(3)</sup>	5.2	3.47%	45.3	4.01%	14.6	0.98%	31.8	2.08%	127.6	9.10%
Total	\$ 99.1	0.52%	\$ 80.7	0.44%	\$ 74.1	0.46%	\$ 265.2	1.70%	\$ 446.3	2.07%

- (1) TIF charge-offs for 2014 and 2013 included approximately \$18 million and \$2 million, respectively, related to the transfer of receivables to assets held for sale.
- (2) NACF charge-offs for 2014 and 2013 included approximately \$18 million and \$5 million, respectively, related to the transfer of receivables to assets held for sale.
- (3) NSP charge-offs for 2014 and 2013 included approximately \$7 million and \$32 million, respectively, related to the transfer of receivables to assets held for sale.

**Table of Contents**

CIT ANNUAL REPORT 2014 45

Charge-offs remained at relatively low levels absent the amount related to assets transferred to AHFS. Recoveries are down in amount from prior periods and are expected to continue to decline as the low level of more recent charge-offs afford fewer opportunities for recoveries. Additionally, charge-offs associated with AHFS do not generate future recoveries as the loans are generally sold before recoveries can be realized.

The tables below present information on non-performing loans, which includes non-performing loans related to assets held for sale for each period:

**Non-accrual and Accruing Past Due Loans at December 31** (dollars in millions)

	2014	2013	2012	2011	2010
<b>Non-accrual loans</b>					
U.S.	\$ 71.9	\$ 176.3	\$ 273.1	\$ 623.6	\$ 1,336.5
Foreign	88.6	64.4	57.0	77.8	280.7
Non-accrual loans	160.5	240.7	330.1	701.4	1,617.2
<b>Troubled Debt Restructurings</b>					
U.S.	\$ 13.8	\$ 218.0	\$ 263.2	\$ 427.5	\$ 412.4
Foreign	3.4	2.9	25.9	17.7	49.3
Restructured loans	\$ 17.2	\$ 220.9	\$ 289.1	\$ 445.2	\$ 461.7
<b>Accruing loans past due 90 days or more</b>	\$ 10.3	\$ 9.9	\$ 3.4	\$ 2.2	\$ 1.7

**Segment Non-accrual Loans as a Percentage of Finance Receivables at December 31** (dollars in millions)



Edgar Filing: CIT GROUP INC - Form 10-K

	2014		2013		2012	
Transportation Finance	\$ 0.1	—	\$ 14.3	0.81%	\$ 31.5	2.36%
International Finance	37.1	5.93%	21.0	1.21%	7.5	0.61%
Transportation & International Finance	37.2	1.05%	35.3	1.01%	39.0	1.52%
Corporate Finance	30.9	0.45%	83.8	1.23%	156.5	2.41%
Equipment Finance	70.0	1.48%	59.4	1.47%	55.3	1.51%
Commercial Services	—	—	4.2	0.19%	6.0	0.26%
North American Commercial Finance	100.9	0.63%	147.4	1.00%	217.8	1.66%
Non-Strategic Portfolio	22.4	NM	58.0	13.14%	73.3	4.85%
Total	\$ 160.5	0.82%	\$ 240.7	1.29%	\$ 330.1	1.92%

NM — not meaningful; Non-accrual loans include loans held for sale. The December 31, 2014 Non-Strategic Portfolios amount reflected non-accrual loans held for sale; since portfolio loans were insignificant, no % is displayed.

Non-accrual loans remained at low levels during 2014. The improvements in 2014 reflect the relatively low levels of new non-accruals, the resolution of a small number of larger accounts in Corporate Finance and the sale of the Small Business Lending unit in NSP. The entire NSP portfolio at December 2014 was classified as held for sale making the percentage of finance receivables not meaningful while the 2013 NSP non-accruals include \$40 million related to accounts in held for sale resulting in an increase of non-accruals as a percentage of finance receivables.

Approximately 54% of our non-accrual accounts were paying currently at December 31, 2014, and our impaired loan carrying value (including FSA discount, specific reserves and charge-offs) to estimated outstanding contractual balances approximated 68%. For this purpose, impaired loans are comprised principally of non-accrual loans over \$500,000 and TDRs.

Total delinquency (30 days or more) improved to 1.7% of finance receivables compared to 2.0% at December 31, 2013, primarily due to an improvement in non-credit (administrative) delinquencies in the Equipment Finance portfolio.

**Foregone Interest on Non-accrual Loans and Troubled Debt Restructurings** (dollars in millions)  
Years Ended December 31

	2014			2013			2012		
	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
Interest revenue that would have been earned at original terms	\$ 22.8	\$ 12.4	\$ 35.2	\$ 52.9	\$ 12.4	\$ 65.3	\$ 66.5	\$ 12.1	\$ 78.6
Less: Interest recorded	6.7	4.2	10.9	18.4	4.2	22.6	23.7	3.7	27.4
Foregone interest revenue	\$ 16.1	\$ 8.2	\$ 24.3	\$ 34.5	\$ 8.2	\$ 42.7	\$ 42.8	\$ 8.4	\$ 51.2

Item 7: Management's Discussion and Analysis

**Table of Contents**

The Company periodically modifies the terms of loans/finance receivables in response to borrowers' difficulties. Modifications that include a financial concession to the borrower, which otherwise would not have been considered, are accounted for as troubled debt restructurings ("TDRs"). For those accounts that were modified but were not considered to be TDRs, it was determined that no concessions had been granted by CIT to the borrower. Borrower compliance with the modified terms is the primary measurement that we use to determine the success of these programs.

The tables that follow reflect loan carrying values as of December 31, 2014, 2013 and 2012 of accounts that have been modified.

**Troubled Debt Restructurings and Modifications at December 31** (dollars in millions)

	2014		2013		2012	
		% Compliant		% Compliant		% Compliant
<b>Troubled Debt Restructurings</b>						
Deferral of principal and/or interest	\$ 6.0	96%	\$ 194.6	99%	\$ 248.5	98%
Debt forgiveness	—	—	2.4	77%	2.5	95%
Interest rate reductions	—	—	—	—	14.8	100%
Covenant relief and other	11.2	83%	23.9	74%	23.3	80%
Total TDRs	\$ 17.2	88%	\$ 220.9	96%	\$ 289.1	97%
Percent non accrual	75%		33%		29%	
<b>Modifications<sup>(1)</sup></b>						
Extended maturity	\$ 0.1	100%	\$ 14.9	37%	\$ 111.5	97%
Covenant relief	70.9	100%	50.6	100%	113.6	100%
Interest rate increase	25.1	100%	21.8	100%	79.6	100%
Other	58.3	100%	62.6	87%	62.4	100%
Total Modifications	\$ 154.4	100%	\$ 149.9	89%	\$ 367.1	99%
Percent non-accrual	10%		23%		25%	

<sup>(1)</sup> Table depicts the predominant element of each modification, which may contain several of the characteristics listed.

The decrease in TDRs from prior years is driven principally by the payoff of a small number of accounts and the disposition of the SBL portfolio.

See Note 3 — Loans in Item 8 Financial Statements and Supplementary Data for additional information regarding TDRs and other credit quality information.

**Table of Contents**

## NON-INTEREST INCOME

## Non-interest Income (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Rental income on operating leases	\$ 2,093.0	\$ 1,897.4	\$ 1,900.8
Other Income:			
Factoring commissions	120.2	122.3	126.5
Gains on sales of leasing equipment	98.4	130.5	117.6
Fee revenues	93.1	101.5	86.1
Gain on investments	39.0	8.2	40.2
Gains on loan and portfolio sales	34.3	48.8	162.3
Recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale	19.8	21.9	54.3
Counterparty receivable accretion	10.7	8.6	88.7
Gains (losses) on derivatives and foreign currency exchange	(37.8)	1.0	(5.7)
Impairment on assets held for sale	(100.7)	(124.0)	(115.1)
Other revenues	28.4	62.5	59.8
Other income	305.4	381.3	614.7
Non-interest income	\$ 2,398.4	\$ 2,278.7	\$ 2,515.5

Non-interest Income includes Rental Income on Operating Leases and Other Income.

*Rental income on operating leases* from equipment we lease is recognized on a straight line basis over the lease term. Rental income is discussed in "Net Finance Revenues" and "Results by Business Segment". See also Note 5 — Operating Lease Equipment in Item 8 Financial Statements and Supplementary Data for additional information on operating leases.

*Other income* declined in 2014 and 2013 reflecting the following:

*Factoring commissions* declined slightly, reflecting the change in the underlying portfolio mix that offset a modest increase in factoring volume. Factoring volume was \$26.7 billion in 2014, up from \$25.7 billion in 2013 and \$25.1 billion for 2012.

*Gains on sales of leasing equipment* resulted from the sale of approximately \$1.2 billion of leasing equipment in 2014 and 2013 and \$1.3 billion in 2012. Gains as a percentage of equipment sold decreased from the prior year and approximated the 2012 percentage and will vary based on the type and age of equipment sold. Equipment sales for 2014 included \$0.8 billion in TIF and over \$0.3 billion in NACF. In 2014, TIF sold approximately \$330 million of aircraft to TC-CIT Aviation, a joint venture with Century Tokyo Leasing, which resulted in a \$30 million gain. Equipment sales for 2013 included \$0.9 billion in TIF assets and \$0.3 billion in NACF assets. Equipment sales for 2012 included \$0.8 billion in TIF assets and \$0.5 billion in NACF assets.

*Fee revenues* include fees on lines of credit and letters of credit, capital markets-related fees, agent and advisory fees, and servicing fees for the loans we sell but retain servicing, including servicing fees in the small business lending portfolio that was sold in June 2014. Fee revenues generated for servicing the small business lending portfolio totaled approximately \$5 million for 2014 and \$11 million for each of 2013 and 2012. Absent the revenues from this portfolio, fee revenues were relatively consistent with 2013. Fee revenues are mainly driven by our NACF segment, though small business lending fees are in NSP.

*Gains on investments* primarily reflected sales of equity investments that were received as part of a lending transaction or, in some cases, a workout situation. The gains were primarily in NACF. Gains in 2014 included \$16 million from investment securities sold to comply with the Volcker Rule. Gains declined in 2013 from 2012 on fewer transactions.

*Gains on loan and portfolio sales* reflected 2014 sales volume of \$1.4 billion, which included \$0.5 billion in each of TIF and NACF and over \$0.4 billion in NSP. TIF activity was primarily due to the sale of the U.K. corporate lending portfolio (gain of \$11 million)

and NSP sales were primarily due to the SBL sale (gains on which were minimal). The 2013 sales volume totaled \$0.9 billion, which included \$0.6 billion in NSP, and over \$0.1 billion in both NACF and TIF. Over 80% of 2013 gains related to NSP and included gains from the sale of the Dell Europe portfolio. Sales volume was \$0.5 billion in 2012, which was substantially all in NACF with high gains as a percentage of sales from sales of low carrying value loans that were on nonaccrual and included FSA adjustments.

*Recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale* reflected repayments or other workout resolutions on loans charged off prior to our emergence from bankruptcy and loans charged off prior to classification as held for sale. These recoveries are recorded as other income, unlike recoveries on loans charged-off after our restructuring, which are recorded as a reduction to the provision for loan losses. The decrease from the prior years reflected a general decline in recoveries of loans charged off pre-emergence as the Company moves further away from its emergence date.

**Item 7: Management's Discussion and Analysis**

---

**Table of Contents**

**48** CIT ANNUAL REPORT 2014

*Counterparty receivable accretion* related to the FSA accretion of a fair value discount on the receivable from Goldman Sachs International ("GSI") related to the GSI Facilities, which are total return swaps (as discussed in Funding and Liquidity and *Note 10 — Long-term Borrowings* and *Note 11 — Derivative Financial Instruments* in *Item 8 Financial Statements and Supplementary Data*). The discount was accreted into income over the expected term of the payout of the associated receivables, and accreted to zero during 2014.

*Gains (losses) on derivatives and foreign currency exchange* Transactional foreign currency movements resulted in losses of \$(133) million in 2014, driven by the strengthening of the U.S. currency against the Canadian dollar, Euro, Mexican Peso, and U.K. Pound Sterling, losses of \$(14) million in 2013, and gains of \$37 million in 2012. These were partially offset by gains of \$124 million in 2014, similarly impacted by the foreign currency movements noted, gains of \$20 million in 2013, and losses of \$(33) million in 2012 on derivatives that economically hedge foreign currency movements and other exposures. Losses related to the valuation of the derivatives within the GSI facility were \$(15) million for 2014, \$(4) million for 2013 and \$(6) million for 2012. The increase reflected the higher unused portion of the facility due to the sale of the student lending business in 2014. In addition, there were losses of \$(14) million, \$(1) million and \$(4) million in 2014, 2013 and 2012, respectively, on the realization of cumulative translation adjustment ("CTA") amounts from AOCI upon the sale or substantial liquidation of a subsidiary. As of December 31, 2014, there was approximately \$(60) million of CTA losses included in accumulated other comprehensive loss in the Consolidated Balance Sheet related to the Brazil, Mexico, and U.K. portfolios in AHFS. For additional information on the impact of derivatives on the income statement, refer to *Note 11 — Derivative Financial Instruments* in *Item 8 Financial Statements and Supplementary Data*.

*Impairment on assets held for sale* in 2014 included \$70 million for NSP identified as subscale platforms and \$31 million from TIF. TIF charges include over \$19 million related to commercial aircraft operating lease equipment held for sale and the remainder related to the transfer of U.K. portfolios to AHFS. The 2013 amount included \$105 million of charges related to NSP and \$19 million for TIF operating lease equipment (mostly aerospace related). NSP activity included \$59 million of charges related to Dell Europe portfolio operating lease equipment and the remaining 2013 NSP impairment related mostly to the international platform rationalization. When a long-lived asset is classified as held for sale, depreciation expense is suspended and the asset is evaluated for impairment with any such charge recorded in other income. (See *Expenses* for related discussion on depreciation on operating lease equipment.) The 2012 amount included \$81 million for NSP, essentially all of which related to NSP Dell Europe operating lease equipment, and \$34 million related to TIF equipment, mostly aerospace related.

*Other revenues* included items that are more episodic in nature, such as gains on work-out related claims, proceeds received in excess of carrying value on non-accrual accounts held for sale, which were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and also includes income from joint ventures. The 2013 amount included gains on workout related claims of \$19 million in NACF and \$13 million in TIF. The 2012 amount included \$14 million gain on a sale of a platform in NSP, related to the Dell Europe transaction.

**Table of Contents**

CIT ANNUAL REPORT 2014 49

**EXPENSES****Other Expenses** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Depreciation on operating lease equipment	\$ 615.7	\$ 540.6	\$ 513.2
Maintenance and other operating lease expenses	196.8	163.1	139.4
Operating expenses:			
Compensation and benefits	533.8	535.4	537.1
Technology	85.2	83.3	81.6
Professional fees	80.6	69.1	63.8
Net occupancy expense	35.0	35.3	36.1
Advertising and marketing	33.7	25.2	36.5
Provision for severance and facilities exiting activities	31.4	36.9	22.7
Other expenses <sup>(1)</sup>	142.1	185.0	116.2
Operating expenses	941.8	970.2	894.0
Loss on debt extinguishments	3.5	–	61.2
Total other expenses	\$ 1,757.8	\$ 1,673.9	\$ 1,607.8
Headcount	3,360	3,240	3,560

<sup>(1)</sup> The year ended December 31, 2013 included \$50 million related to the Tyco tax agreement settlement charge.

*Depreciation on operating lease equipment* is recognized on owned equipment over the lease term or estimated useful life of the asset. Depreciation expense is primarily driven by the TIF operating lease equipment portfolio, which includes long-lived assets such as aircraft and railcars. To a lesser extent, depreciation expense includes amounts on smaller ticket equipment, such as office equipment. Impairments recorded on equipment held in portfolio are reported as depreciation expense. AHFS also impacts the balance, as depreciation expense is suspended on operating lease equipment once it is transferred to AHFS. Depreciation expense is discussed further in “*Net Finance Revenues*,” as it is a component of our asset margin. See “*Non-interest Income*” for impairment charges on operating lease equipment classified as held for sale.

*Maintenance and other operating lease expenses* relate to the TIF operating lease portfolio. The majority of the maintenance expenses are railcar fleet related. CIT Rail provides railcars primarily pursuant to full-service lease contracts under which CIT Rail as lessor is responsible for railcar maintenance and repair. Under our aircraft leases, the lessee is generally responsible for normal maintenance and repairs, airframe and engine overhauls, compliance with airworthiness directives, and compliance with return conditions of aircraft on lease. As a result, aircraft operating lease expenses primarily relate to transition costs incurred in connection with re-leasing an aircraft. The increase in maintenance and other operating lease expenses from 2013 reflects the growing rail portfolio.

*Operating expenses* decreased from 2013, due to the 2013 Tyco International Ltd. (“Tyco”) tax agreement settlement charge of \$50 million, discussed below in *other expenses*. Absent that charge, operating expenses increased by 2%, which includes integration costs and additional employee costs related to the Direct Capital and Nacco acquisitions. Operating expenses rose over 8% from 2012 to 2013, driven by the tax agreement settlement charge, and costs associated with restructuring initiatives. Operating

## Edgar Filing: CIT GROUP INC - Form 10-K

expenses also include Bank deposit-raising costs, which totaled \$59 million in 2014 and \$35 million in each of 2013 and 2012. These are reflected across various expense categories, but mostly within advertising and marketing and in other, reflecting deposit insurance costs. Operating expenses reflect the following changes:

- *Compensation and benefits* decreased in 2014 as progress on various expense initiatives was partly offset by increased costs related to the acquisitions. Expenses were down slightly in 2013 from 2012 as lower salaries and benefit costs from the reduction in employees was partially offset by higher incentive compensation, which includes the amortization of deferred compensation. Headcount at December 31, 2014 was up from a year ago, driven by the Direct Capital and Nacco acquisitions, while down from 2012, resulting from efficiency initiatives. See *Note 20 — Retirement, Postretirement and Other Benefit Plans* in *Item 8 Financial Statements and Supplementary Data*.
- *Professional fees* include legal and other professional fees such as tax, audit, and consulting services and increased from 2013 reflecting costs associated with acquisitions, the pending OneWest Transaction, and exits of our non-strategic portfolios. The increase from 2012 to 2013 primarily reflected costs associated with our international rationalization efforts, and 2012 also benefited from higher amounts received on favorable legal and tax resolutions.
- *Advertising and marketing* expenses include costs associated with raising deposits. Bank advertising and marketing costs increased in 2014 from 2013, reflecting increased deposits and

### Item 7: Management's Discussion and Analysis

---

#### Table of Contents

50 CIT ANNUAL REPORT 2014

the termination of a branch under construction. Advertising and marketing costs totaled \$25 million in 2014, \$15 million in 2013, and \$24 million in 2012.

- *Provision for severance and facilities exiting activities* reflects costs associated with various organization efficiency initiatives. Severance costs were \$30 million of the 2014 charges and related to the termination of approximately 150 employees and the associated benefits costs. The facility exiting activities totaled \$1 million. See *Note 27 — Severance and Facility Exiting Liabilities* for additional information.
- *Other expenses* include items such as travel and entertainment, insurance, FDIC costs, office equipment and supplies costs and taxes other than income taxes. Other expenses declined in 2014 primarily due to the 2013 \$50 million Tyco tax agreement settlement charge expense. On December 20, 2013, we reached an agreement with Tyco to settle contract claims asserted by Tyco related to a tax agreement that CIT and Tyco entered into in 2002 in connection with CIT's separation from Tyco. CIT agreed to pay Tyco \$60 million, including \$10 million that had been previously accrued. In 2014, other expenses also include increased Bank deposit insurance costs.

We made significant progress exiting low-returning portfolios in 2014. We exited all the sub-scale portfolios in Asia, Europe and several in Latin America, as well as our Small Business Lending ("SBL") and Student Loan ("SLX") portfolios. Our primary focus is now on exiting Mexico and Brazil and closing several legal entities in Europe and Asia. We have separate agreements to sell the businesses in Mexico and Brazil and anticipate finalizing the Mexico transaction in the 2015 first quarter and Brazil in the second half of 2015. Upon completion of all of our planned exits, we expect to eliminate approximately \$15 million from our quarterly expenses.

*Loss on debt extinguishments* for 2014 primarily related to early extinguishments of unsecured debt maturing in February 2015, while the 2012 amount reflected the write-off of accelerated fees and underwriting costs related to the repayment of the remaining Series A Notes and all of the 7% Series C Notes.

## FRESH START ACCOUNTING

Upon emergence from bankruptcy in 2009, CIT applied Fresh Start Accounting (FSA) in accordance with GAAP. FSA had a significant impact on our operating results in prior years but the impact has significantly lessened. NFR includes the accretion of the FSA adjustments to the loans, leases and debt, as well as to depreciation and, to a lesser extent rental income related to operating lease equipment.

The most significant remaining discount at December 31, 2014, related to operating lease equipment (\$1.3 billion related to rail operating lease equipment and \$0.7 billion to aircraft operating lease equipment). The discount on the operating lease equipment was, in effect, an impairment of the operating lease equipment upon emergence from bankruptcy, as the assets were recorded at their fair value, which was less than their carrying value. The recording of the FSA adjustment reduced the asset balances subject to depreciation and thus decreases depreciation expense over the remaining useful life of the operating lease equipment or until it is sold.

During 2014, the fair value discount on the receivable from GSI accreted to zero and the remaining FSA balances on loans and borrowings and deposits at December 31, 2014 were not significant at less than \$1 million and \$7 million, respectively.

## INCOME TAXES

### Income Tax Data (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Provision for income taxes, before discrete items	\$ 47.4	\$54.4	\$ 76.2
Discrete items	(445.3)	29.5	40.5
(Benefit) provision for income taxes	\$(397.9)	\$83.9	\$116.7
Effective tax rate	(58.4)%	11.4%	(28.1)%

The Company's 2014 income tax benefit is \$397.9 million. This compares to income tax provisions of \$83.9 million in 2013 and \$116.7 million in 2012. The change from the prior year tax provisions primarily reflects discrete tax benefits relating to the release of certain domestic and international valuation allowances, a reduction in international income tax expense driven by lower international earnings, and changes in certain other discrete tax expense (benefit). Included in the discrete tax benefit of \$445.3 million for the current year is:

- \$375 million reduction to the valuation allowance on the U.S. net federal deferred tax assets,
- \$44 million reduction to the valuation allowances on certain international net deferred tax assets,
- \$30 million reduction to the U.S. federal and state valuation allowances consequent to the acquisition of Direct Capital, and
- Miscellaneous other \$4 million of net tax expense items partially offset the above mentioned tax benefits.

### Table of Contents

## Edgar Filing: CIT GROUP INC - Form 10-K

Excluding discrete items, the income tax provisions primarily reflects income tax expense on the earnings of certain international operations and state income tax expense in the U.S.

The 2013 income tax provision of \$83.9 million reflected income tax expense on the earnings of certain international operations and state income tax expense in the U.S. Included in the 2013 tax provision is approximately \$30 million of net discrete tax expense that primarily related to the establishment of valuation allowances against certain international net deferred tax assets due to certain international platform rationalizations, and deferred tax expense due to the sale of a leverage lease. The discrete tax expense items were partially offset by incremental tax benefits associated with favorable settlements of prior year international tax audits.

The 2012 income tax provision of \$116.7 million reflected income tax expense on the earnings of certain international operations and state income tax expense in the U.S. Included in the 2012 tax provision is \$40.5 million of net discrete tax expense that primarily consisted of incremental taxes associated with international audit settlements and an increase in a U.S. deferred tax liability on certain indefinite life assets that cannot be used as a source of future taxable income in the assessment of the domestic valuation allowance. Also, included in 2012 was a discrete tax benefit of \$146.5 million caused by a release of tax reserves established on an uncertain tax position taken on certain tax losses following a favorable ruling from the tax authorities and a \$98.4 million tax benefit associated with a tax position taken on a prior-year restructuring transaction. Both of these benefits were fully offset by corresponding increases to the domestic valuation allowance.

The change in the effective tax rate each period is impacted by a number of factors, including the relative mix of domestic and international earnings, adjustments to the valuation allowances, and discrete items. The actual year-end 2014 effective tax rate may vary from the near term future periods due to the changes in these factors.

Beginning in 2015, the Company expects to report deferred income tax expense on its domestic earnings after the 2014 partial release of its domestic valuation allowances on net deferred tax assets. Management expects that this will result in a global effective tax rate in the range of 30-35%. However, there will be a minimal impact on cash taxes paid until the related NOL carry-forward is fully utilized. In addition, while GAAP equity increased as a result of the partial recognition of net deferred tax assets corresponding to the partial release of the aforementioned valuation allowances, there was minimal benefit on regulatory capital.

See *Note 19 — Income Taxes* in *Item 8 Financial Statements and Supplementary Data* for detailed discussion on the Company's domestic and foreign reporting entities' net deferred tax assets, inclusive of the deferred tax assets related to the net operating losses ("NOLs") in these entities and their respective valuation allowance analysis.

---

## RESULTS BY BUSINESS SEGMENT

Effective January 1, 2014, Management changed our operating segments, which are now reported in three operating segments: (1) TIF; (2) NACF; and (3) NSP.

See *Note 25 — Business Segment Information* in *Item 8 Financial Statements and Supplementary Data* for additional information relating to the reorganization.

On April 25, 2014, we completed the sale of our student lending business, which had been included in NSP prior to the sale. As a result, the student lending business is reported as a discontinued operation, and all prior periods have been conformed and are consistent with this presentation. See *Note — 2 Acquisition and Disposition Activities* in *Item 8 Financial Statements and Supplementary Data* for additional information.

The following table summarizes the reported pre-tax earnings of each segment, and the impacts of certain debt redemption actions. The pre-tax amounts excluding these actions are used by management to analyze segment results and are Non-GAAP measurements. See *Non-GAAP Financial Measurements* for discussion on the use of non-GAAP measurements.

**Item 7: Management's Discussion and Analysis**

---



**Impacts of Debt Redemption Charges on Pre-tax Income (Loss) by Segment** (dollars in millions)**Year Ended December 31, 2014**

	<b>Transportation &amp; International Finance</b>	<b>North American Commercial Finance</b>	<b>Non-Strategic Portfolios</b>	<b>Corporate &amp; Other</b>	<b>Total</b>
Income (loss) from continuing operations, before (provision) benefit for income taxes	\$612.2	\$ 319.0	\$ (102.1 )	\$(148.3 )	\$680.8
Accelerated FSA net discount on debt extinguishments and repurchases	34.7	–	–	–	34.7
Debt related – loss on debt extinguishments	–	–	–	3.5	3.5
Accelerated OID on debt extinguishments related to the GSI facility	(42.0 )	–	–	–	(42.0 )
Pre-tax income (loss) from continuing operations – excluding debt redemptions and OID acceleration	\$604.9	\$ 319.0	\$ (102.1 )	\$(144.8 )	\$677.0

**Year Ended December 31, 2013**

Income (loss) from continuing operations, before (provision) benefit for income taxes	\$563.7	\$ 364.7	\$ (62.8 )	\$(131.4 )	\$734.2
Accelerated FSA net discount on debt extinguishments and repurchases	14.5	8.5	10.6	1.0	34.6
Accelerated OID on debt extinguishments related to the GSI facility	–	–	(5.2 )	–	(5.2 )
Pre-tax income (loss) from continuing operations – excluding debt redemptions and OID acceleration	\$578.2	\$ 373.2	\$ (57.4 )	\$(130.4 )	\$763.6

**Year Ended December 31, 2012**

Income (loss) from continuing operations, before (provision) benefit for income taxes	\$(166.2 )	\$ 267.3	\$ (125.0 )	\$(391.5 )	\$(415.4 )
Accelerated FSA net discount on debt extinguishments and repurchases	638.5	435.9	39.5	181.0	1,294.9
Debt related – loss on debt extinguishments	–	–	–	61.2	61.2
Accelerated OID on debt extinguishments related to the GSI facility	(6.9 )	–	–	–	(6.9 )
Pre-tax income (loss) from continuing operations – excluding debt redemptions and OID acceleration	\$465.4	\$ 703.2	\$ (85.5 )	\$(149.3 )	\$933.8

**Transportation & International Finance (TIF)**

TIF includes several divisions: aerospace (commercial air and business air), rail, maritime finance, and international finance. Revenues generated by TIF include rents collected on leased assets, interest on loans, fees, and gains from assets sold.

*Aerospace — Commercial Air* provides aircraft leasing, lending, asset management, and advisory services for commercial and regional airlines around the world. We own and finance a fleet of 350 aircraft and have about 100 clients in approximately 50 countries.

## Edgar Filing: CIT GROUP INC - Form 10-K

*Aerospace* — *Business Air* offers financing and leasing programs for corporate and private owners of business jets.

*Rail* leases railcars and locomotives to railroads and shippers throughout North America, and Europe. Our operating lease fleet consists of approximately 120,000 railcars and 390 locomotives and we serve over 650 customers.

*Maritime Finance* offers secured loans to owners and operators of oceangoing and inland cargo vessels, as well as offshore vessels and drilling rigs.

*International Finance* offers equipment financing, secured lending and leasing to small and middle-market businesses in China and the U.K., the latter of which was included in assets held for sale at December 31, 2014.

### Table of Contents

CIT ANNUAL REPORT 2014 53

### Transportation & International Finance – Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Earnings Summary</b>			
Interest income	\$ 289.4	\$ 254.9	\$ 218.2
Interest expense	(650.4)	(585.5)	(1,331.5)
Provision for credit losses	(38.3)	(18.7)	(14.5)
Rental income on operating leases	1,959.9	1,682.4	1,666.3
Other income	69.9	82.2	65.8
Depreciation on operating lease equipment	(519.6)	(433.3)	(410.9)
Maintenance and other operating lease expenses	(196.8)	(163.0)	(139.3)
Operating expenses	(301.9)	(255.3)	(220.3)
Income (loss) before (provision) benefit for income taxes	\$ 612.2	\$ 563.7	\$ (166.2)
Pre-tax income – excluding debt redemption charges and accelerated OID on debt extinguishment related to the GSI facility <sup>(1)</sup>	\$ 604.9	\$ 578.2	\$ 465.4
<b>Select Average Balances</b>			
Average finance receivables (AFR)	\$ 3,571.2	\$ 3,078.9	\$ 2,204.9
Average operating leases (AOL)	14,255.7	12,195.8	11,853.5
Average earning assets (AEA)	18,243.0	15,434.6	14,269.2
<b>Statistical Data</b>			
Net finance revenue (interest and rental income, net of interest and depreciation expense and maintenance and other operating lease expenses) (NFR)	\$ 882.5	\$ 755.5	\$ 2.8
Net finance margin (NFR as a % of AEA)	4.84%	4.89%	0.02%
Operating lease margin as a % of AOL	8.72%	8.91%	9.42%
Pretax return on AEA	3.36%	3.65%	(1.16)%
New business volume	\$ 5,015.0	\$ 3,578.0	\$ 2,825.7

<sup>(1)</sup> *Non-GAAP measurement, see table at the beginning of this section for a reconciliation of non-GAAP to GAAP financial information.*

## Edgar Filing: CIT GROUP INC - Form 10-K

Results reflect strong asset growth, lower funding costs, continued high utilization rates of our aircraft and railcars, and higher charge-offs in the international division. Pre-tax earnings also continued to be modestly impacted by accelerated debt FSA and OID accretion from debt prepayment activities, which increased 2014 results by \$7 million, compared to decreases of \$15 million in 2013 and \$632 million in 2012.

We grew financing and leasing assets during 2014, further expanding our aircraft and railcar fleets, and building our maritime finance portfolio. Financing and leasing assets grew to \$19.0 billion at December 31, 2014, up from \$16.4 billion at December 31, 2013 and \$14.9 billion at December 31, 2012. The 2014 increase from 2013 reflected growth in all transportation divisions, \$1.5 billion increase in Aerospace, \$1.2 billion in Rail, including the Nacco acquisition in the 2014 first quarter, and \$0.6 billion in Maritime, as discussed in the following paragraphs.

*Aerospace* financing and leasing assets grew to \$11.1 billion from \$9.7 billion at December 31, 2013 and \$9.5 billion at December 31, 2012. Our owned commercial portfolio included 279 aircraft at December 31, 2014, up slightly from December 31, 2013 and 2012. Commercial Air assets are primarily originated through orders with manufacturers, but are also supplemented by spot purchases of new and used equipment. At December 31, 2014, we had 152 aircraft on order from manufacturers up from 147 at December 31, 2013, with deliveries scheduled through 2020. During 2014 we placed an order with Boeing for the purchase of 10 787-9 Dreamliner aircraft, with deliveries beginning in 2018 and orders with Airbus for the purchase of 15 A330-900neo (new engine option) aircraft and five A321-200ceo (current engine option) aircraft. Deliveries of the A330-900neo are scheduled to begin in 2018 and deliveries of the A321-200ceo are scheduled to begin in 2015. See *Note 21 — Commitments in Item 8 Financial Statements and Supplemental Data and Concentrations* for further aircraft data.

During 2014, the Company formed TC-CIT Aviation Ireland and TC-CIT Aviation U.S. (together TC-CIT Aviation), joint ventures between CIT Aerospace and Century Tokyo Leasing Corporation (“CTL”), a comprehensive financial services company in Japan. Under the terms of the agreements, TC-CIT Aviation will acquire commercial aircraft that will be leased to airlines around the globe. CIT Aerospace agreed to sell 14 commercial aircraft to TC-CIT Aviation in transactions with an aggregate value of approximately \$0.6 billion (nine of which were sold in the fourth quarter of 2014 at a gain of approximately \$30 million, with the remaining five aircraft, with a carrying value of approximately \$225 million in AHFS at December 31, 2014 to be sold in the first quarter of 2015). Under the terms of the joint ventures, CIT will facilitate arranging aircraft acquisitions, negotiating leases, servicing the aircraft and administering the entities. CIT has a 30% equity investment in TC-CIT Aviation. CTL will maintain a majority

### Item 7: Management’s Discussion and Analysis

---

#### Table of Contents

54 CIT ANNUAL REPORT 2014

equity interest in the joint venture and will be a lender to the newly-established companies.

*Rail* financing and leasing assets grew to \$5.8 billion from \$4.6 billion at December 31, 2013 and \$4.2 billion at December 31, 2012. We expanded our owned portfolio to approximately 120,000 railcars at December 31, 2014, from 106,000 and 103,000 at December 31, 2013 and 2012, respectively. The current year increase in assets and railcars included the impact of the Nacco acquisition described below. Rail assets are primarily originated through firm orders with manufacturers and are also supplemented by spot purchases. At December 31, 2014, we had approximately 11,000 railcars on order from manufacturers, with deliveries scheduled through 2016. During 2014 we placed orders with manufacturers for approximately 9,000 railcars.

We entered the European rail leasing market with the January 31, 2014 acquisition of Nacco, an independent full service railcar lessor in Europe. The purchase included approximately \$650 million of assets (operating lease equipment), comprised of more than 9,500 railcars, consisting of tank cars, flat cars, gondolas and hopper cars. See *Note 21 — Commitments in Item 8 Financial Statements and Supplemental Data and Concentrations* for further railcar data.

*Maritime Finance* financing and leasing assets more than doubled to \$1.0 billion from \$0.4 billion at December 31, 2013, as we continued to expand this business.

## Edgar Filing: CIT GROUP INC - Form 10-K

*International Finance* financing and leasing assets decreased to \$1.0 billion from \$1.7 billion at December 31, 2013 and \$1.2 billion at December 31, 2012, primarily reflecting the sale of a portfolio of corporate loans in the 2014 fourth quarter and collections. Included in the balance at December 31, 2014 were approximately \$400 million of assets held for sale related to a U.K. portfolio of equipment finance assets.

Highlights included:

- NFR was up from 2013 and 2012. Excluding accelerated debt FSA and OID accretion, which had a significant impact in 2012, NFR was \$875 million, up from \$770 million in 2013 and \$634 million in 2012. The increases reflect growth in the portfolios and lower funding costs. Total net FSA accretion increased NFR by \$152 million in 2014 and \$176 million in 2013 and decreased NFR by \$550 million in 2012. The remaining net FSA accretion benefits will primarily be reflected in depreciation expense, and will continue to decline over time. Adjusted Net Finance Margin decreased from 2013 reflecting the lower portfolio yield and increased from 2012 reflecting improved funding costs. See *Select Segment and Division Margin Metrics* table in *Net Finance Revenue* section.
- Financing and leasing assets grew 16% in 2014, primarily reflecting new business volume of \$5.0 billion and the Nacco rail acquisition, partially offset by asset sales, including a UK portfolio and aircraft sold to the TC-CIT Aviation joint venture, equipment depreciation and loan amortization.
- Gross yields (interest income plus rental income on operating leases as a % of AEA) decreased from 2013 and 2012, reflecting lower rental rates on certain aircraft and growth in the loan portfolio.
- Net operating lease revenue (rental income on operating leases less depreciation on operating lease equipment and maintenance and other operating lease expenses), which is a component of NFR, increased as higher rental income from growth in the Aerospace and Rail portfolios and strong utilization offset increased depreciation and maintenance and operating lease expense. The decline from 2013 compared to 2012 reflected pressure on renewal rates on certain aircraft, higher depreciation and higher maintenance and operating lease expense. The decline in the operating lease margin (as a % of average operating lease equipment) primarily reflects pressure on renewal rates on certain aircraft.
- New business volume for 2014 primarily included the delivery of 37 aircraft, approximately 6,000 railcars, with the vast majority of the rail operating lease volume originated by the Bank, and \$2.2 billion of finance receivables. New business volume for 2013 primarily reflected the delivery of 24 aircraft and approximately 5,400 railcars, while new business volume for 2012 reflected the addition of 21 aircraft and approximately 7,000 railcars.
- Equipment utilization remained strong throughout 2014 and ended the year with 99% of commercial air and rail equipment on lease or under a commitment. Rail utilization rates were up from 2013 and 2012, while air utilization remained consistently strong over the 3-year period. We have 16 new aircraft deliveries scheduled for 2015, substantially all of which have lease commitments with customers. Over 80% of all railcars on order have commitments, including about 90% of the approximately 7,000 scheduled railcar deliveries for 2015.
- Other income primarily reflected the following:
  - Gains on asset sales totaled \$78 million on \$1.3 billion of equipment and receivable sales, including a gain of \$30 million on the sale of aircraft to the TC-CIT Aviation joint ventures, compared to \$82 million of gains on \$978 million of asset sales in 2012 and \$70 million of gains on \$750 million of asset sales in 2012.
  - Impairment charges on AHFS totaled \$31 million in 2014, and predominantly related to international portfolios and commercial aircraft, compared to \$19 million in 2013 and \$34 million in 2012, mostly related to commercial aircraft.
    - FSA accretion on counterparty receivable totaled \$2 million, \$1 million and \$15 million for the years ended December 31, 2014, 2013 and 2012, respectively. There is no longer any balance to accrete.
- Other income also includes a small amount of fee and periodic items, such as a \$13 million benefit related to a work-out related claim in 2013.
- Non-accrual loans were \$37 million (1.05% of finance receivables) at December 31, 2014, compared to \$35 million (1.01%) at December 31, 2013 and \$39 million (1.52%) at December 31, 2012. The 2014 and 2013 provision for credit losses mostly reflected the credit metric trends and loan portfolio growth. Net charge-offs were \$38 million (1.06% of average finance receivables) in 2014, up from \$17 million (0.55%) and \$7 million (0.32%) in 2013 and 2012, respectively. Essentially all of the

## Edgar Filing: CIT GROUP INC - Form 10-K

charge-offs for 2014, 2013 and 2012 were concentrated in the International portfolio. TIF charge-offs in 2014 included approximately \$18 million related to the transfer of receivables to assets held for sale (amounts for the prior years were not significant).

---

### Table of Contents

CIT ANNUAL REPORT 2014 55

- Operating expenses increased in 2014 and 2013 reflecting investments in new initiatives and growth in existing businesses, including the Nacco rail acquisition in the 2014 first quarter.

### **North American Commercial Finance (NACF)**

The NACF segment consists of four divisions: Commercial Services, Corporate Finance, Equipment Finance, and Real Estate Finance. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities and capital markets transactions, and commissions earned on factoring and related activities.

*Commercial Services* provides factoring, receivable management products, and secured financing to businesses (our clients, generally manufacturers or importers of goods) that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Factoring entails the assumption of credit risk with respect to trade accounts receivable arising from the sale of goods by our clients to their customers (generally retailers) that have been factored (i.e. sold or assigned to the factor). Although primarily U.S.-based, Commercial Services also conducts business with clients and their customers internationally.

*Corporate Finance* provides a range of financing options and offers advisory services to small and medium size companies. Its core products include both loan and fee-based products. Loans offered are primarily senior secured loans collateralized by accounts receivable, inventory, machinery & equipment and/or intangibles that are often used for working capital, plant expansion, acquisitions or recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. We provide financing to customers in a wide range of industries, including Commercial & Industrial, Communications, Media & Entertainment, Energy, and Healthcare.

*Equipment Finance* provides leasing and equipment financing solutions to small businesses and middle market companies in a wide range of industries on both a private label and direct basis. We provide financing solutions for our borrowers and lessees, and assist manufacturers and distributors in growing sales, profitability and customer loyalty by providing customized, value-added finance solutions to their commercial clients. Our LendEdge platform allows small businesses to access financing through a highly automated credit approval, documentation and funding process. We offer both capital and operating leases.

*Real Estate Finance* provides senior secured commercial real estate loans to developers and other commercial real estate professionals. We focus on stable, cash flowing properties and originate construction loans to highly experienced and well capitalized developers.

### **North American Commercial Finance – Financial Data and Metrics (dollars in millions)**

	Years Ended December 31,		
	2014	2013	2012
<b>Earnings Summary</b>			
Interest income	\$ 832.4	\$ 828.6	\$ 976.5
Interest expense	(285.4)	(284.3)	(750.9)
Provision for credit losses	(62.0)	(35.5)	(44.0)

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

Rental income on operating leases	97.4	104.0	99.4
Other income	318.0	306.5	555.2
Depreciation on operating lease equipment	(81.7)	(75.1)	(71.9)
Operating expenses	(499.7)	(479.5)	(497.0)
Income before provision for income taxes	\$ 319.0	\$ 364.7	\$ 267.3
Pre-tax income – excluding debt redemption charges <sup>(1)</sup>	\$ 319.0	\$ 373.2	\$ 703.2
<b>Select Average Balances</b>			
Average finance receivables (AFR)	\$ 15,397.7	\$ 14,040.4	\$ 12,420.8
Average earning assets (AEA) <sup>(2)</sup>	14,319.5	12,916.2	11,362.7
<b>Statistical Data</b>			
Net finance revenue (interest and rental income, net of interest and depreciation expense) (NFR)	\$ 562.7	\$ 573.2	\$ 253.1
Net finance margin (NFR as a % of AEA)	3.93%	4.44%	2.23%
Pretax return on AEA	2.23%	2.82%	2.35%
New business volume	\$ 6,201.6	\$ 6,244.9	\$ 5,862.9
Factoring volume	\$ 26,702.5	\$ 25,712.2	\$ 25,123.9

<sup>(1)</sup> Non-GAAP measurement, see table at the beginning of this section for a reconciliation of non-GAAP to GAAP financial information.

<sup>(2)</sup> AEA is lower than AFR as it is reduced by the average credit balances for factoring clients.

**Item 7: Management's Discussion and Analysis**

**Table of Contents**

56 CIT ANNUAL REPORT 2014

Pre-tax income for 2014 reflects strong asset growth, offset by higher credit costs, lower yields in certain portfolios and additional costs related to the August 1, 2014 acquisition of Direct Capital. Pre-tax income includes accelerated debt FSA accretion, which reduced profitability in 2013 and 2012 by \$9 million and \$436 million, respectively. Excluding accelerated debt FSA accretion, pre-tax income declined from 2012 to 2013 as the benefit from higher assets and lower funding costs were offset by significantly lower other income, primarily lower gains on asset sales and lower net FSA accretion.

The growth in Financing and Leasing Assets was driven by solid new loan and lease volumes, supplemented by the acquisition of approximately \$540 million of financing and leasing assets in Direct Capital that are reflected in the Equipment Finance division. New business volume was down slightly from 2013, as the decline in Corporate Finance activity offset increases in Equipment Finance and Real Estate Finance.

Financing and leasing assets in Corporate Finance totaled \$6.9 billion at December 31, 2014, up slightly from December 31, 2013 and from \$6.6 billion at December 31, 2012. Equipment Finance assets grew to \$5.0 billion from \$4.3 billion at December 31, 2013, reflecting the Direct Capital acquisition, and from \$3.8 billion at December 31, 2012. Real Estate Finance loans totaled \$1.8 billion at December 31, 2014, up from \$1.6 billion and \$0.6 billion at December 31, 2013 and 2012, respectively. Commercial Services factoring receivables and loans of \$2.6 billion were up from \$2.3 billion at each of December 31, 2013 and 2012.

## Edgar Filing: CIT GROUP INC - Form 10-K

CIT Bank originated the vast majority of the U.S. funded loan and lease volume in each of the periods presented. At December 31, 2014, over 75% of this segment's financing and leasing assets were in the Bank.

New business pricing in each of our units remains competitive, and was relatively consistent throughout 2014.

Highlights included:

- NFR was down slightly from 2013 and up from 2012. Because of the significant impact accelerated debt repayments had on prior periods, it is more meaningful to exclude the accelerated accretion. Excluding accelerated debt FSA, NFR of \$563 million was down from \$582 million in 2013 and \$689 million in 2012. NFR, excluding accelerated debt FSA accretion, benefited from a higher level of earning assets and lower funding costs in 2014 and 2013, which were offset by a declining benefit from net FSA accretion and lower yields on certain loan products. Net FSA accretion, excluding the accelerated debt accretion, increased NFR by \$20 million in 2014, \$44 million in 2013 and \$254 million in 2012.
- NACF gross yields and NFM reflect continued pressures on yields in certain units of the business. See *Select Segment and Division Margin Metrics* table in *Net Finance Revenue* section.
- Financing and leasing assets totaled \$16.2 billion, up from \$15.0 billion at December 31, 2013 and \$13.3 billion at December 31, 2012, driven primarily by new business volume and the Direct Capital acquisition.
- Other income was up slightly from 2013 and down from 2012, reflecting the following:
  - Factoring commissions of \$120 million were down slightly from both prior years as pressure on factoring commission rates due to competition and changes in the portfolio mix offset increased factoring volume.
  - Gains on asset sales (including receivables, equipment and investments) totaled \$89 million in 2014, up from \$47 million in 2013 but down from \$227 million in 2012. Financing and Leasing assets sold totaled \$803 million in 2014, compared to \$439 million in 2013 and \$948 million in 2012.
    - FSA-related counterparty receivable accretion totaled \$8 million, compared to \$7 million in 2013 and \$68 million in 2012. There is no longer any balance to accrete.
  - Recoveries of loans charged off pre-emergence and loans charged off prior to transfer to assets held for sale totaled \$13 million in 2014, unchanged from 2013 and down from \$45 million in 2012.
  - Fee revenue was \$81 million in 2014, compared to \$82 million in 2013 and \$67 million in 2012. Fee revenue is mainly driven by syndication fees, arranger fees, agent fees and fees from issuing letters of credit and on unused lines of credit.
  - 2013 also included gains on workout-related claims of \$19 million.
- Credit metrics remained at or near cycle lows. Non-accrual loans declined to \$101 million (0.63% of finance receivables), from \$147 million (1.00%) at December 31, 2013 and \$218 million (1.66%) at December 31, 2012. Net charge-offs were \$56 million (0.36% of average finance receivables) in 2014, compared to \$19 million (0.13%) in 2013 and \$52 million (0.42%) in 2012. Net charge-offs for 2014 included \$18 million related to the transfer of receivables to AHFS compared to \$5 million in 2013.
- Operating expenses largely reflected the benefits of operating efficiencies gained compared to 2013 and 2012, offset by the additional costs related to the acquisition of Direct Capital.

---

### **Table of Contents**

**Non-Strategic Portfolios (NSP)**

NSP consisted of portfolios that we no longer consider strategic. At December 31, 2014, these consisted primarily of equipment financing portfolios in Mexico and Brazil, both of which were under definitive sale agreements. On June 27, 2014, we completed the sale of the Small Business Lending (“SBL”) division, with results included in the 2014 financials.

**Non-Strategic Portfolios – Financial Data and Metrics (dollars in millions)**

	Years Ended December 31,		
	2014	2013	2012
<b>Earnings Summary</b>			
Interest income	\$ 90.5	\$ 157.2	\$ 180.3
Interest expense	(82.1)	(130.2)	(262.4)
Provision for credit losses	0.4	(10.8)	7.3
Rental income on operating leases	35.7	111.0	135.1
Other income	(57.6)	(14.6)	(9.1)
Depreciation on operating lease equipment	(14.4)	(32.2)	(30.4)
Maintenance and other operating lease expenses	–	(0.1)	(0.1)
Operating expenses	(74.6)	(143.1)	(145.7)
Loss before provision for income taxes	\$ (102.1)	\$ (62.8)	\$ (125.0)
Pre-tax loss – excluding debt redemption charges and accelerated OID on debt extinguishment related to the GSI facility <sup>(1)</sup>	\$ (102.1)	\$ (57.4)	\$ (85.5)
<b>Select Average Balances</b>			
Average finance receivables (AFR)	\$ 151.2	\$ 1,128.6	\$ 1,490.7
Average earning assets (AEA)	832.2	1,771.7	1,976.7
<b>Statistical Data</b>			
Net finance revenue (interest and rental income, net of interest and depreciation expense and maintenance and other operating lease expenses) (NFR)	\$ 29.7	\$ 105.7	\$ 22.5
Net finance margin (NFR as a % of AEA)	3.57%	5.97%	1.14%
New business volume	\$ 216.5	\$ 713.0	\$ 911.6

<sup>(1)</sup> Non-GAAP measurement, see table at the beginning of this section for a reconciliation of non-GAAP to GAAP financial information.

Pre-tax losses continued in 2014, driven by lower asset levels from reduced business activity and lower other income. 2013 and 2012 pre-tax results were also impacted by accelerated debt FSA and OID accretion of \$5 million and \$40 million, respectively, reflecting debt prepayment activities.

Financing and leasing assets totaled \$380 million at December 31, 2014, down from \$1.3 billion at December 31, 2013 and \$2.0 billion at December 31, 2012. The current year decline reflected the exit from all the sub-scale countries in Asia and Europe, and several in Latin America, as well as our SBL portfolio. Essentially the entire remaining balance consists of the portfolios in Mexico and Brazil. We have entered into definitive agreements to sell these businesses and both transactions are subject to customary regulatory approvals. We anticipate closing the Mexico transaction in the 2015 first quarter and Brazil in the second half of 2015. During 2013, we completed the sale of the Dell Europe portfolio, approximately \$470 million of financing and leasing assets, as well as certain other foreign portfolios.

Highlights included:

- Net finance revenue (“NFR”) was down from 2013, driven by lower earning assets. There was minimal net FSA accretion in 2014, while NFR included total net FSA accretion costs of \$20 million in 2013 and \$122 million in 2012.



- Other income declined from the prior years, reflecting:
- A gain of \$1 million on \$483 million of receivable and equipment sales in 2014, which included approximately \$340 million of assets related to the SBL portfolio. Gains totaled \$57 million on \$656 million of receivable and equipment sales in 2013, which included approximately \$470 million of assets related to the Dell Europe portfolio sale. Gains totaled \$22 million on \$43 million of equipment and receivable sales in 2012. The 2013 gain included \$50 million on the sale of the Dell Europe portfolio, whereas the 2012 gain included \$14 million related to the sale of our Dell Europe operating platform.
- Impairment charges recorded on international equipment finance portfolios and operating lease equipment held for sale. Total impairment charges were \$70 million for 2014, compared to \$105 million and \$81 million for the 2013 and 2012, respectively. The 2014 impairment charges related mostly to fair value adjustments to portfolios in AHFS as part of our international rationalization. The majority of the 2013 and 2012 impairments related to charges on operating leases recorded in assets held for sale (\$62 million in 2013 and \$80 million in 2012), which had a nearly offsetting benefit in net finance revenue related to suspended depreciation, and for portfolios transferred to AHFS as part of our international rationalization. See “*Non-interest Income*” and

**Item 7: Management’s Discussion and Analysis**

**Table of Contents**

58 CIT ANNUAL REPORT 2014

“*Expenses*” for discussions on impairment charges and suspended depreciation on operating lease equipment held for sale.

- The remaining balance mostly includes fee revenue, recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale and other revenues. Fee revenue included servicing fees related to the small business lending portfolio, which totaled \$5 million in 2014 and \$11 million for each of 2013 and 2012, which were no longer earned subsequent to the sale of that portfolio in 2014.
- Operating expenses were down, primarily reflecting lower cost due to the sales in 2014 and 2013, including SBL, Dell Europe operations and other international operations. As we complete the exits in Mexico and Brazil and the closing of several legal entities in Europe and Asia we expect to eliminate approximately \$15 million from our quarterly expenses.

**Corporate and Other**

Certain items are not allocated to operating segments and are included in Corporate and Other, including unallocated 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 and certain legal costs and unallocated expenses (Operating Expenses). Corporate and Other also reflects net gains or losses on debt extinguishments.

**Corporate and Other – Financial Data** (dollars in millions)

Years Ended December 31,		
2014	2013	2012

**Earnings Summary**

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
Interest income	\$ 14.2	\$ 14.5	\$ 19.0
Interest expense	(68.3)	(60.9)	(320.9)
Provision for credit losses	(0.2)	0.1	(0.2)
Other income	(24.9)	7.2	2.8
Operating expenses	(65.6)	(92.3)	(31.0)
Loss on debt extinguishments	(3.5)	-	(61.2)
Loss before provision for income taxes	\$ (148.3)	\$ (131.4)	\$ (391.5)
Pre-tax loss – excluding debt redemption charges and accelerated OID on debt extinguishment related to the GSI facility <sup>(1)</sup>	\$ (144.8)	\$ (130.4)	\$ (149.3)

<sup>(1)</sup> Non-GAAP measurement, see table at the beginning of this section for a reconciliation of non-GAAP to GAAP financial information.

- Interest income consists of interest and dividend income primarily from deposits held at other depository institutions and other investment securities.
- Interest expense is allocated to the segments. Amounts in excess of these allocations and amounts related to excess liquidity are held in Corporate. Interest expense also reflects certain FSA amounts, \$17 million in 2014, while 2013 and 2012 included \$8 million and \$196 million, respectively.
- Other income primarily reflects gains and (losses) on derivatives, including the GSI facilities, which drove the balances in 2014, and foreign currency exchange. The GSI derivative had a negative mark-to-market of \$15 million in 2014.
- Operating expenses reflects salary and general and administrative expenses in excess of amounts allocated to the business segments and litigation-related costs, including \$50 million in 2013 related to the Tyco tax agreement settlement. Operating expenses also included \$31 million, \$37 million and \$23 million related to provision for severance and facilities exiting activities during 2014, 2013 and 2012, respectively.
- The 2012 loss on debt extinguishments resulted primarily from repayments of Series C Notes.

**Table of Contents**

CIT ANNUAL REPORT 2014 59

**FINANCING AND LEASING ASSETS**

The following table presents our financing and leasing assets by segment.

**Financing and Leasing Asset Composition (dollars in millions)**

	December 31,			\$ Change 2014 vs 2013	\$ Change 2013 vs 2012
	2014	2013	2012		
<b>Transportation &amp; International Finance</b>					

Edgar Filing: CIT GROUP INC - Form 10-K

December 31,

Loans	\$ 3,558.9	\$ 3,494.4	\$ 2,556.5	\$ 64.5	\$ 937.9
Operating lease equipment, net	14,665.2	12,778.5	12,178.0	1,886.7	600.5
Assets held for sale	815.2	158.5	173.6	656.7	(15.1)
Financing and leasing assets	19,039.3	16,431.4	14,908.1	2,607.9	1,523.3
<b>Aerospace</b>					
Loans	1,796.5	1,247.7	1,217.6	548.8	30.1
Operating lease equipment, net	8,949.5	8,267.9	8,105.2	681.6	162.7
Assets held for sale	391.6	148.8	171.8	242.8	(23.0)
Financing and leasing assets	11,137.6	9,664.4	9,494.6	1,473.2	169.8
<b>Rail</b>					
Loans	130.0	107.2	117.0	22.8	(9.8)
Operating lease equipment, net	5,715.2	4,503.9	4,060.7	1,211.3	443.2
Assets held for sale	1.2	3.3	1.8	(2.1)	1.5
Financing and leasing assets	5,846.4	4,614.4	4,179.5	1,232.0	434.9
<b>Maritime Finance</b>					
Loans	1,006.7	412.6	—	594.1	412.6
Assets held for sale	19.7	—	—	19.7	—
Financing and leasing assets	1,026.4	412.6	—	613.8	412.6
<b>International Finance</b>					
Loans	625.7	1,726.9	1,221.9	(1,101.2)	505.0
Operating lease equipment, net	0.5	6.7	12.1	(6.2)	(5.4)
Assets held for sale	402.7	6.4	—	396.3	6.4
Financing and leasing assets	1,028.9	1,740.0	1,234.0	(711.1)	506.0
<b>North American Commercial Finance</b>					
Loans	15,936.0	14,693.1	13,084.4	1,242.9	1,608.7
Operating lease equipment, net	265.2	240.5	150.9	24.7	89.6
Assets held for sale	22.8	38.2	42.1	(15.4)	(3.9)
Financing and leasing assets	16,224.0	14,971.8	13,277.4	1,252.2	1,694.4
<b>Corporate Finance</b>					
Loans	6,889.9	6,831.8	6,501.0	58.1	330.8
Operating lease equipment, net	—	6.2	16.2	(6.2)	(10.0)
Assets held for sale	22.8	38.2	34.1	(15.4)	4.1
Financing and leasing assets	6,912.7	6,876.2	6,551.3	36.5	324.9
<b>Equipment Finance</b>					
Loans	4,717.3	4,044.1	3,662.0	673.2	382.1
Operating lease equipment, net	265.2	234.3	134.7	30.9	99.6
Assets held for sale	—	—	8.0	—	(8.0)
Financing and leasing assets	4,982.5	4,278.4	3,804.7	704.1	473.7
<b>Real Estate Finance</b>					
Loans	1,768.6	1,554.8	616.1	213.8	938.7
<b>Commercial Services</b>					
Loans and factoring receivables	2,560.2	2,262.4	2,305.3	297.8	(42.9)
<b>Non-Strategic Portfolios</b>					
Loans	0.1	441.7	1,512.2	(441.6)	(1,070.5)
Operating lease equipment, net	—	16.4	82.8	(16.4)	(66.4)
Assets held for sale	380.1	806.7	429.1	(426.6)	377.6
Financing and leasing assets	380.2	1,264.8	2,024.1	(884.6)	(759.3)
<b>Total financing and leasing assets</b>	<b>\$35,643.5</b>	<b>\$32,668.0</b>	<b>\$30,209.6</b>	<b>\$ 2,975.5</b>	<b>\$ 2,458.4</b>

**Table of Contents**

60 CIT ANNUAL REPORT 2014

Financing and leasing assets continued to grow in 2014, reflecting strong new business volumes and acquisitions, partially offset by portfolio collections and prepayments and asset sales.

Growth in TIF during 2014 was driven by the transportation divisions, reflecting solid new business volume, and was supplemented by the acquisition of Nacco that added approximately \$650 million of operating lease equipment. As we reevaluated certain International Finance portfolios during 2014, higher asset sales resulted in lower asset balances in that division. TIF financing and leasing assets AHFS were mainly comprised of a \$400 million U.K. portfolio and aircraft, including \$225 million to be sold to the TC-CIT Aviation joint venture. See "*Results by Business Segment*" for detail.

Growth in NACF in 2014 was led by Equipment Finance, which included the acquisition of Direct Capital that increased loans by approximately \$540 million at the time of acquisition in the third quarter. Commercial Services grew by approximately 13% in 2014 and Real Estate Finance also grew, but at a slower pace than in 2013.

The 2014 decline in NSP primarily reflected sales, which included the remaining SBL portfolio, limited new business volumes and portfolio runoff. The remaining AHFS primarily reflected the Mexico and Brazil portfolios, each subject to separate sales agreements.

Financing and leasing assets increased in 2013 from 2012, reflecting strong new business volumes and portfolio purchases, partially offset by portfolio collections and prepayments and asset sales. Operating lease equipment increased, primarily reflecting scheduled equipment deliveries in Aerospace and Rail. Assets held for sale totaled \$1.0 billion at December 31, 2013, and included assets associated with our subscale and international platform rationalization efforts, primarily portfolios in Europe and South America, and a small business lending portfolio in NSP and mostly aerospace equipment in TIF.

Financing and leasing asset trends are discussed in the respective segment descriptions in "*Results by Business Segment*".

The following table reflects the contractual maturities of our finance receivables:

**Contractual Maturities of Loans at December 31, 2014 (dollars in millions)**

	U.S.	Foreign	Total
<b>Fixed-rate</b>			
1 year or less	\$ 3,662.2	\$ 674.7	\$ 4,336.9
Year 2	1,119.7	380.0	1,499.7
Year 3	793.3	251.0	1,044.3
Year 4	458.0	151.8	609.8
Year 5	229.8	100.9	330.7
2-5 years	2,600.8	883.7	3,484.5
After 5 years	440.7	205.7	646.4

Edgar Filing: CIT GROUP INC - Form 10-K

	U.S.	Foreign	Total
Total fixed-rate	6,703.7	1,764.1	8,467.8
<b>Adjustable-rate</b>			
1 year or less	536.6	270.0	806.6
Year 2	1,332.9	272.1	1,605.0
Year 3	1,497.8	313.7	1,811.5
Year 4	1,892.4	394.9	2,287.3
Year 5	1,327.6	539.1	1,866.7
2-5 years	6,050.7	1,519.8	7,570.5
After 5 years	2,179.7	470.4	2,650.1
Total adjustable-rate	8,767.0	2,260.2	11,027.2
Total	\$ 15,470.7	\$ 4,024.3	\$ 19,495.0

**Table of Contents**

CIT ANNUAL REPORT 2014 61

The following table presents the changes to our financing and leasing assets:

**Financing and Leasing Assets Rollforward** (dollars in millions)

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Total
<b>Balance at December 31, 2011</b>	\$ 13,702.8	\$ 12,250.7	\$ 1,959.4	\$ 27,912.9
New business volume	2,825.7	5,862.9	911.6	9,600.2
Portfolio / business purchases	198.0	–	–	198.0
Loan and portfolio sales	–	(448.7)	(10.0)	(458.7)
Equipment sales	(750.0)	(499.1)	(33.0)	(1,282.1)
Depreciation	(410.9)	(71.9)	(30.4)	(513.2)
Gross charge-offs	(15.7)	(98.9)	(27.1)	(141.7)
Collections and other	(641.8)	(3,717.6)	(746.4)	(5,105.8)
<b>Balance at December 31, 2012</b>	14,908.1	13,277.4	2,024.1	30,209.6
New business volume	3,578.0	6,244.9	713.0	10,535.9
Portfolio / business purchases	154.3	720.4	–	874.7
Loan and portfolio sales	(103.2)	(129.4)	(621.0)	(853.6)
Equipment sales	(874.8)	(309.5)	(34.8)	(1,219.1)
Depreciation	(433.3)	(75.1)	(32.2)	(540.6)
Gross charge-offs	(26.0)	(58.3)	(54.3)	(138.6)
Collections and other	(771.7)	(4,698.6)	(730.0)	(6,200.3)
<b>Balance at December 31, 2013</b>	16,431.4	14,971.8	1,264.8	32,668.0
New business volume	5,015.0	6,201.6	216.5	11,433.1
Portfolio / business purchases	649.2	536.6	–	1,185.8
Loan and portfolio sales	(474.1)	(460.6)	(454.2)	(1,388.9)
Equipment sales	(780.5)	(342.1)	(28.3)	(1,150.9)

Edgar Filing: CIT GROUP INC - Form 10-K

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Total
Depreciation	(519.6)	(81.7)	(14.4)	(615.7)
Gross charge-offs	(44.8)	(75.2)	(7.5)	(127.5)
Collections and other	(1,237.3)	(4,526.4)	(596.7)	(6,360.4)
<b>Balance at December 31, 2014</b>	<b>\$ 19,039.3</b>	<b>\$ 16,224.0</b>	<b>\$ 380.2</b>	<b>\$ 35,643.5</b>

*New business volume* in 2014 increased 9% from 2013 following a 10% increase from 2012, reflecting solid demand for TIF and NACF products and services. TIF new business volume primarily reflects scheduled aircraft and railcar deliveries, and increased maritime finance lending. NACF maintained its strong performance from 2013. New business volume was down slightly in NACF, as the decline in Corporate Finance activity, mostly in the commercial and industrial industries, offset the increase in Equipment Finance, which also included solid activity from Direct Capital. NSP was down from 2013 and 2012 resulting from our international platform rationalization.

*Portfolio/business purchases* included Nacco in TIF and Direct Capital in NACF during 2014 and a commercial loan portfolio in NACF and a portfolio in TIF during 2013.

*Loan and portfolio sales* in TIF during 2014 reflect international portfolios, while NACF had various loan sales throughout the year and NSP primarily consisted of the small business loan portfolio, along with some international portfolios. NSP 2013 activity reflected sales of sub-scale platforms associated with our international platform rationalization efforts and approximately \$470 million of Dell Europe receivables. The 2012 sales in NACF primarily reflected corporate loans.

*Equipment sales* in TIF consisted of aerospace and rail assets in conjunction with its portfolio management activities and strategic initiatives, including sales to the TC-CIT Aviation joint venture. NACF sales reflect assets within Equipment Finance and Corporate Finance, while NSP sales included Dell Europe assets in 2013 and 2012.

Portfolio activities are discussed in the respective segment descriptions in “*Results by Business Segment*”.

**Item 7: Management’s Discussion and Analysis**

**Table of Contents**

**62** CIT ANNUAL REPORT 2014

**CONCENTRATIONS**

**Ten Largest Accounts**

Our ten largest financing and leasing asset accounts, the vast majority of which are lessors of air and rail assets, in the aggregate represented 11.1% of our total financing and leasing assets at December 31, 2014 (the largest account was less than 2.2%).

The ten largest financing and leasing asset accounts were 9.8% at both December 31, 2013 and 2012.

**Geographic Concentrations**

The following table represents the financing and leasing assets by obligor geography:

**Financing and Leasing Assets by Obligor – Geographic Region** (dollars in millions)

	December 31, 2014		December 31, 2013		December 31, 2012	
Northeast	\$ 6,552.0	18.4%	\$ 5,933.1	18.2%	\$ 4,495.4	14.9%
Southwest	3,852.8	10.8%	3,606.9	11.1%	3,090.8	10.2%
Midwest	3,821.6	10.7%	3,762.5	11.5%	3,970.9	13.2%
Southeast	3,732.9	10.5%	2,690.2	8.2%	2,612.9	8.7%
West	3,183.1	8.9%	3,238.6	9.9%	3,092.9	10.2%
Total U.S.	21,142.4	59.3%	19,231.3	58.9%	17,262.9	57.2%
Asia / Pacific	4,712.8	13.2%	4,017.9	12.3%	3,790.0	12.5%
Europe	3,192.4	9.0%	3,692.4	11.3%	3,386.7	11.2%
Canada	2,520.6	7.1%	2,287.0	7.0%	2,255.1	7.5%
Latin America	1,651.7	4.6%	1,743.1	5.3%	1,934.3	6.4%
All other countries	2,423.6	6.8%	1,696.3	5.2%	1,580.6	5.2%
Total	\$35,643.5	100.0%	\$32,668.0	100.0%	\$30,209.6	100.0%

The following table summarizes both state concentrations greater than 5.0% and international country concentrations in excess of 1.0% of our financing and leasing assets:

**Financing and Leasing Assets by Obligor – State and Country** (dollars in millions)

	December 31, 2014		December 31, 2013		December 31, 2012	
<b>State</b>						
Texas	\$ 3,261.4	9.1%	\$ 3,022.4	9.3%	\$ 2,466.2	8.2%
New York	2,492.3	7.0%	2,323.3	7.1%	1,836.1	6.1%
All other states	15,388.7	43.2%	13,885.6	42.5%	12,960.6	42.9%
Total U.S.	\$ 21,142.4	59.3%	\$ 19,231.3	58.9%	\$ 17,262.9	57.2%
<b>Country</b>						
Canada	\$ 2,520.6	7.1%	\$ 2,287.0	7.0%	\$ 2,255.1	7.5%
China	1,043.7	2.9%	969.1	2.9%	1,113.5	3.7%
Australia	1,029.1	2.9%	974.4	3.0%	1,041.8	3.4%
England	855.3	2.4%	1,166.5	3.6%	941.9	3.1%
Mexico	670.7	1.9%	819.9	2.5%	940.5	3.1%
Brazil	579.5	1.6%	710.3	2.2%	685.6	2.3%
Philippines	511.3	1.4%	255.9	0.8%	172.8	0.6%
Indonesia	424.4	1.2%	285.9	0.8%	319.9	1.0%
Russia <sup>(1)</sup>	400.0	1.1%	355.9	1.1%	322.9	1.1%
France	340.6	1.0%	294.7	0.9%	248.2	0.8%
Spain	339.4	1.0%	450.7	1.4%	459.1	1.5%
All other countries	5,786.5	16.2%	4,866.4	14.9%	4,445.4	14.7%
Total International	\$ 14,501.1	40.7%	\$ 13,436.7	41.1%	\$ 12,946.7	42.8%

<sup>(1)</sup> Most of the balance represents operating lease equipment.

### Cross-Border Transactions

Cross-border transactions reflect monetary claims on borrowers domiciled in foreign countries and primarily include cash deposited with foreign banks and receivables from residents of a foreign country, reduced by amounts funded in the same currency and recorded in the same jurisdiction. The following table includes all countries that we have cross-border claims of 0.75% or greater of total consolidated assets at December 31, 2014:

#### Cross-border Outstandings as of December 31 (dollars in millions)

Country	2014			2013			2012			
	Banks <sup>(*)</sup>	Government	Other	Net Local Country Claims	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure	Exposure as a Percentage of Total Assets
Canada	\$ 76	\$ –	\$ 173	\$ 1,148	\$ 1,397	2.92%	\$ 1,784.0	3.78%	\$ 1,285.0	2.92%
United Kingdom	562	2	269	296	1,129	2.36%	1,317.0	2.79%	449.0	1.02%
China	–	–	126	727	853	1.78%	881.0	1.87%	335.0	0.76%
Marshall Islands	–	–	687	–	687	1.43%	–	–	–	–
France	3	–	412	11	426	0.89%	586.0	1.24%	566.0	1.29%
Germany	–	–	–	–	(*)	–	442.0	0.94%	(*)	–
Mexico	–	–	–	–	–	–	406.0	0.86%	(*)	–
Netherlands	–	–	–	–	(*)	–	(*)	–	364.0	0.83%

(\*) Cross-border outstandings were less than 0.75% of total consolidated assets

(\*\*) Claims from Bank counterparts include claims outstanding from derivative products.

### Industry Concentrations

The following table represents financing and leasing assets by industry of obligor:

#### Financing and Leasing Assets by Obligor – Industry (dollars in millions)

	December 31, 2014		December 31, 2013		December 31, 2012	
Commercial airlines (including regional airlines) <sup>(1)</sup>	\$ 10,313.7	28.9%	\$ 8,972.4	27.5%	\$ 9,039.2	29.9%
Manufacturing <sup>(2)</sup>	4,702.6	13.2%	4,311.9	13.2%	4,181.1	13.8%
Retail <sup>(3)</sup>	3,187.8	8.9%	3,063.1	9.4%	3,010.7	10.0%
Transportation <sup>(4)</sup>	2,872.5	8.1%	2,515.9	7.7%	2,379.6	7.9%
Service industries	2,553.6	7.2%	3,123.4	9.6%	3,039.8	10.1%
Wholesale	1,710.3	4.8%	1,394.1	4.3%	884.4	2.9%
Real Estate	1,590.5	4.5%	1,351.4	4.1%	694.5	2.3%
Energy and utilities	1,513.2	4.2%	1,384.6	4.2%	1,078.8	3.6%



Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014		December 31, 2013		December 31, 2012	
Oil and gas extraction / services	1,483.4	4.2%	1,157.1	3.5%	990.3	3.3%
Finance and insurance	1,272.1	3.6%	787.0	2.4%	729.9	2.4%
Healthcare	1,159.7	3.3%	1,393.1	4.3%	1,466.7	4.8%
Other (no industry greater than 2%)	3,284.1	9.1%	3,214.0	9.8%	2,714.6	9.0%
Total	\$35,643.5	100.0%	\$32,668.0	100.0%	\$30,209.6	100.0%

Certain prior period balances in the table have been conformed to the current period presentation.

- (1) Includes the Commercial Aerospace Portfolio and additional financing and leasing assets that are not commercial aircraft.
- (2) At December 31, 2014, includes petroleum and coal, including refining (1.5%), manufacturers of chemicals, including pharmaceuticals (3.4%), Electrical and Electronic Equipment (1.0%) and Stone, Clay, Glass & Concrete (1.0%).
- (3) At December 31, 2014, includes retailers of apparel (4.2%) and general merchandise (1.7%).
- (4) At December 31, 2014, includes rail (3.9%), maritime (1.8%) and trucking and shipping (1.6%).

Direct exposure to customers in the energy industry includes \$1.5 billion in energy and utilities and \$1.5 billion in the oil and gas extraction/services industries. Energy and utilities primarily consists of project finance transactions supporting unregulated power generation plants, mostly fueled by natural gas. Approximately \$1 billion of the exposure to oil and gas extraction/services includes railcars, primarily tank and sand railcars, leased to companies in these industries. There is also approximately \$0.5 billion of loans that are exposed to oil (primarily in oil and gas extraction/services), of which approximately 80% is secured and approximately two-thirds is with oilfield services companies.

**Item 7: Management's Discussion and Analysis**

**Table of Contents**

64 CIT ANNUAL REPORT 2014

***Operating Lease Equipment — Rail***

As detailed in the following table, at December 31, 2014, TIF had approximately 120,000 railcars and 390 locomotives on operating lease. We also have commitments to purchase railcars, as disclosed in *Item 8. Financial Statements and Supplementary Data, Note 21 — Commitments.*

Railcar Type	Owned Fleet	Purchase Orders
Covered Hoppers	45,026	5,826
Tank Cars	30,765	5,212
Coal	12,483	—
Mill/Coil Gondolas	14,128	—
Boxcars	8,539	—

Edgar Filing: CIT GROUP INC - Form 10-K

<b>Railcar Type</b>	<u>Owned Fleet</u>	<u>Purchase Orders</u>
Flatcars	5,524	–
Locomotives	390	–
Other	3,197	–
<b>Total</b>	<b>120,052</b>	<b>11,038</b>

TIF's global Rail business has a fleet of approximately 120,000 railcars, including approximately 31,000 tank cars. The North American fleet has approximately 19,000 tank cars used in the transport of crude oil, ethanol and other flammable liquids (collectively, "Flammable Liquids"). Of the 19,000 tank cars, approximately 12,000 tank cars are leased directly to customers for the transportation of crude by rail. In addition, the owned fleet contains 9,000 covered hoppers that carry sand to support crude oil and natural gas drilling.

Following several highly-publicized derailments of tank cars since mid-2013, U.S. and Canadian government agencies and industry groups agreed to implement a number of operational changes, including requiring multiple crew members on all trains carrying hazardous materials, prohibiting unattended trains on main lines, increasing track inspections, reducing speeds in populated areas, redirecting trains around high-risk areas, and mandating the testing and classification of crude oil prior to shipment. In addition, in April, 2014, Transport Canada ("TC") issued an order prohibiting the use of certain older tank cars in dangerous goods service in Canada effective immediately, however CIT had no railcars impacted by the order.

On June 27, 2014, TC announced proposed amendments under the Transportation of Dangerous Goods Act, the Railway Safety Management System Regulations, and the Transportation Information Regulations that will, among other safety requirements for railways, formalize new DOT-111 tank car standards. On July 23, 2014, the U.S. Pipeline and Hazardous Materials Safety Administration ("PHMSA") issued a Notice of Proposed Rulemaking ("NPRM") on Enhanced Tank Car Standards and Operational Controls for High Hazard Flammable Trains seeking public comment on tank cars standards, braking systems, speed restrictions, rail routing and notifications to state emergency responders. The NPRM also requested comment on retrofit standards and schedule for existing tank cars in high-hazard flammable trains. The NPRM is complex and will require extensive review. In addition, the PHMSA proposed three different options for new tank car standards in the NPRM and raised questions to which public comment and discussion is requested.

Until PHMSA and TC release their proposed rules, we will be unable to assess how any final regulations may impact CIT and what changes may be required with respect to our tank cars in Flammable Liquids service, including the scope and cost to CIT of any retrofit program and the timing of required implementation of any retrofitting requirements. Since the average age of our affected fleet is relatively young, we expect to retrofit most, if not all, of our cars pursuant to the regulations and to amortize and recover the cost over the remaining asset life. We do not expect these operational and regulatory changes will have a material impact on our business or financial results.

#### Operating Lease Equipment — Aerospace

As detailed in the following table, at December 31, 2014, TIF had 279 commercial aircraft on operating lease. We also have commitments to purchase aircraft, as disclosed in *Item 8. Financial Statements and Supplementary Data, Note 21 — Commitments*.

<b>Aircraft Type</b>	<u>Owned Fleet</u>	<u>Order Book</u>
Airbus A319/320/321	122	55
Airbus A330	38	20
Airbus A350	–	14
Boeing 737	82	44
Boeing 757	8	–
Boeing 767	6	–
Boeing 787	2	18
Embraer 145	1	–
Embraer 175	4	–
Embraer 190/195	15	1
Other	1	–

Aircraft Type	Owned Fleet	Order Book
<b>Total</b>	<b>279</b>	<b>152</b>

## Table of Contents

CIT ANNUAL REPORT 2014 65

## Commercial Aerospace

The following tables present detail on our commercial and regional aerospace portfolio ("Commercial Aerospace"). The net investment in regional aerospace financing and leasing assets was \$48 million, \$52 million and \$80 million at December 31, 2014 and 2013 and 2012, respectively, and was substantially comprised of loans and capital leases.

The information presented below by region, manufacturer, and body type, is based on our operating lease aircraft portfolio which comprises 91% of our total commercial aerospace portfolio and substantially all of our owned fleet of leased aircraft at December 31, 2014.

### Commercial Aerospace Portfolio (dollars in millions)

	December 31, 2014		December 31, 2013		December 31, 2012	
	Net Investment	Number	Net Investment	Number	Net Investment	Number
<b>By Product:</b>						
Operating lease <sup>(1)</sup>	\$ 9,309.3	279	\$ 8,379.3	270	\$ 8,238.8	268
Loan <sup>(2)</sup>	635.0	50	505.3	39	666.7	64
Capital lease	335.6	21	31.7	8	40.4	10
<b>Total</b>	<b>\$ 10,279.9</b>	<b>350</b>	<b>\$ 8,916.3</b>	<b>317</b>	<b>\$ 8,945.9</b>	<b>342</b>

### Commercial Aerospace Operating Lease Portfolio<sup>(1)</sup>

	December 31, 2014		December 31, 2013		December 31, 2012	
	Net Investment	Number	Net Investment	Number	Net Investment	Number
<b>By Region:</b>						
Asia / Pacific	\$ 3,610.0	88	\$ 3,065.1	81	\$ 3,071.3	83
Europe	2,135.4	82	2,408.8	91	2,343.2	86
U.S. and Canada	1,802.6	57	1,276.5	43	1,049.9	38
Latin America	994.9	37	940.3	38	1,020.2	42
Africa / Middle East	766.4	15	688.6	17	754.2	19
<b>Total</b>	<b>\$ 9,309.3</b>	<b>279</b>	<b>\$ 8,379.3</b>	<b>270</b>	<b>\$ 8,238.8</b>	<b>268</b>
<b>By Manufacturer:</b>						
Airbus	\$ 5,985.5	160	\$ 5,899.1	167	\$ 5,602.6	162
Boeing	2,711.6	98	2,038.7	87	2,301.0	94

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014		December 31, 2013		December 31, 2012	
Embraer	547.2	20	441.5	16	324.8	12
Other	65.0	1	—	—	10.4	—
Total	\$ 9,309.3	279	\$ 8,379.3	270	\$ 8,238.8	268
<b>By Body Type <sup>(3)</sup>:</b>						
Narrow body	\$ 6,287.8	230	\$ 6,080.6	230	\$ 5,966.6	227
Intermediate	2,955.3	47	2,297.3	39	2,222.6	39
Wide body	—	—	—	—	37.5	1
Regional and other	66.2	2	1.4	1	12.1	1
Total	\$ 9,309.3	279	\$ 8,379.3	270	\$ 8,238.8	268
Number of customers		98		98		97
Weighted average age of fleet (years)		5		5		5

<sup>(1)</sup> Includes operating lease equipment held for sale.

<sup>(2)</sup> Plane count excludes aircraft in which our net investment consists of syndicated financings against multiple aircraft. The net investment associated with such financings was \$39 million at December 31, 2014, \$45 million at December 31, 2013, and \$50 million at December 31, 2012.

<sup>(3)</sup> Narrow body are single aisle design and consist primarily of Boeing 737 and 757 series, Airbus A320 series, and Embraer E170 and E190 aircraft. Intermediate body are smaller twin aisle design and consist primarily of Boeing 767 series and Airbus A330 series aircraft. Wide body are large twin aisle design, such as Boeing 747 and 777 series aircraft. Regional and Other includes aircraft and related equipment, such as engines.

Our top five commercial aerospace outstanding exposures totaled \$2,595.1 million at December 31, 2014. The largest individual outstanding exposure totaled \$759.6 million at December 31, 2014, which was to a U.S. carrier. See Note 21 — Commitments in Item 8. Financial Statements and Supplementary Data for additional information regarding commitments to purchase additional aircraft.

**Item 7: Management's Discussion and Analysis**

**Table of Contents**

66 CIT ANNUAL REPORT 2014

**RISK MANAGEMENT**

CIT is subject to a variety of risks that may arise through the Company's business activities, including the following principal forms of risk:

- Strategic risk is the impact on earnings or capital arising from adverse strategic business decisions, improper implementation of strategic decisions, or lack of responsiveness to changes in the industry, including changes in the financial services industry as well as fundamental changes in the businesses in which our customers and our Company engages.
- 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.

## Edgar Filing: CIT GROUP INC - Form 10-K

- Asset risk is the equipment valuation and residual risk of lease equipment owned by the Company that arises from fluctuations in the supply and demand for the underlying leased equipment. The Company is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in either reduced future lease income over the remaining life of the asset or a lower sale value.
- Market risk includes interest rate risk and foreign currency risk. Interest rate risk is the impact that fluctuations in interest rates will have on the Company's net finance revenue and on the market value of the Company's assets, liabilities and derivatives. Foreign exchange risk is the economic impact that fluctuations in exchange rates between currencies can have on the Company's non-dollar denominated assets and liabilities.
- Liquidity risk is the risk that the Company has an inability to maintain adequate cash resources and funding capacity to meet its obligations, including under stress scenarios.
- Capital risk is the risk that the Company does not have adequate capital to cover its risks and to support its growth and strategic objectives.
- Operational risk is the risk of financial loss, damage to the Company's reputation, or other adverse impacts resulting from inadequate or failed internal processes and systems, people or external events.
- Information Technology Risk is the risk of financial loss, damage to the company's reputation or other adverse impacts resulting from unauthorized (malicious or accidental) disclosure, modification, or destruction of information, including cyber-crime, unintentional errors and omissions, IT disruptions due to natural or man-made disasters, or failure to exercise due care and diligence in the implementation and operation of an IT system.
- Legal and Regulatory Risk is the risk that the Company is not in compliance with applicable laws and regulations, which may result in fines, regulatory criticism or business restrictions, or damage to the Company's reputation.
- Reputational Risk is the potential that negative publicity, whether true or not, will cause a decline in the value of the Company due to changes in the customer base, costly litigation, or other revenue reductions.

### GOVERNANCE AND SUPERVISION

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

- the major risks inherent to CIT's business activities, as defined above;
- 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 risk acceptance criteria 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 major risks inherent to 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 and reports regularly to the RMC of the Board on the status of CIT's risk management program. Within the RMG, officers with reporting lines to the CRO supervise and manage groups and departments with specific risk management responsibilities.

The Credit Risk Management ("CRM") 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, Credit Control and Credit Administration. The CCO chairs several key governance committees, including the Corporate Credit Committee ("CCC").

## Edgar Filing: CIT GROUP INC - Form 10-K

The Enterprise Risk Management (“ERM”) group is responsible for oversight of asset risk, market risk, liquidity risk, capital risk, operational risk, model development, analytics, risk data and reporting.

The Chief Model Risk Officer reports directly to the CRO, and is responsible for model governance, validation and monitoring

The Chief Information Risk Officer reports to the CRO and is responsible for IT Risk, Business Continuity Planning and Disaster Recovery.

The Risk Framework, Risk Policy & Governance are also managed through a direct report to the CRO.

Credit Review is an independent oversight function that is responsible for performing internal credit-related reviews for the organization as well as the ongoing monitoring, testing, and measurement of credit quality and credit process risk in enterprise-wide lending and leasing activities. Credit Review reports to the RMC of the Board and administratively into the CRO.

---

### **Table of Contents**

CIT ANNUAL REPORT 2014 67

The Compliance function reports to the Audit Committee of the Board and administratively into the CRO.

Regulatory Relations reports to Internal Audit Services (“IAS”) and the Chief Audit Executive. The Audit Committee and the Regulatory Compliance Committee of the Board oversee financial, legal, compliance, regulatory and audit risk management practices.

### **STRATEGIC RISK**

Strategic risk management starts with analyzing the short and medium term business and strategic plans established by the Company. This includes the evaluation of the industry, opportunities and risks, market factors and the competitive environment, as well as internal constraints, such as CIT’s risk appetite and control environment. The business plan and strategic plan are linked to the Risk Appetite and Risk Tolerance Frameworks, including the limit structure. RMG is responsible for the New Product and Strategic Initiative process. This process is intended to enable new activities that are consistent with CIT’s expertise and risk appetite, and ensure that appropriate due diligence is completed on new strategies before approval and implementation. Changes in the business environment and in the industry are evaluated periodically through scenario development and analytics, and discussed with the business leaders, CEO and RMC.

Strategic risk management includes the effective implementation of new products and strategic initiatives. The New Product and Strategic Initiative process requires tracking and review of all approved new initiatives. In the case of acquisitions, such as Nacco and Direct Capital, integration planning and management covers the implementation process across affected businesses and functions. In the case of the OneWest Transaction, CIT will also become a SIFI. SIFI planning and implementation is a cross functional effort, led by RMG and coordinated with the integration planning processes.

### **CREDIT RISK**

#### **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 RMG, reporting into the CRO through the CCO. This group establishes the Company’s underwriting standards, approves extensions of credit, and is responsible for portfolio management, including credit grading and problem loan management. RMG reviews and monitors credit exposures with the goal of identifying, as early as possible, customers that are experiencing declining creditworthiness or financial difficulty. The CCO evaluates reserves through our Allowance for Loan and Lease Losses (“ALLL”) process for performing loans and non-accrual loans, as well as establishing nonspecific reserves to cover losses inherent in the portfolio. CIT’s portfolio is managed by setting limits and target performance metrics, and monitoring risk concentrations by borrower, industry, geography and equipment type. We set or modify Risk Acceptance Criteria (underwriting standards) as conditions warrant, based on borrower risk, collateral, industry risk, portfolio size and concentrations, credit

## Edgar Filing: CIT GROUP INC - Form 10-K

concentrations and risk of substantial credit loss. We evaluate our collateral and test for asset impairment based upon collateral value and projected cash flows and relevant market data with any impairment in value charged to earnings.

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

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

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

Credit personnel review potential borrowers' financial condition, results of operations, management, industry, business model, customer base, operations, collateral and other data, such as third party credit reports and appraisals, to evaluate the potential customer's borrowing and repayment ability. Transactions are graded by PD and LGD, 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 periodically. Decisions on continued creditworthiness or impairment of borrowers are determined through these periodic reviews.

*Small-Ticket Lending and Leasing.* For small-ticket lending and leasing transactions, largely in Equipment Finance and NSP, 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.

### Item 7: Management's Discussion and Analysis

---

#### Table of Contents

68 CIT ANNUAL REPORT 2014

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.

#### **Counterparty Risk**

## Edgar Filing: CIT GROUP INC - Form 10-K

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

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

The CCC, in conjunction with ERM, approves each counterparty and establishes exposure limits based on credit analysis of each counterparty. Derivative agreements entered into for our own risk management purposes are generally entered into with major financial institutions rated investment grade by nationally recognized rating agencies.

We also monitor and manage counterparty credit risk, for example, through the use of exposure limits, related to our cash and short-term investment portfolio, including securities purchased under agreements to resell.

### **ASSET RISK**

Asset risk in our leasing business is evaluated and managed in the business units and overseen by RMG. Our business process consists of: (1) setting residual values at transaction inception, (2) systematic residual value reviews, and (3) monitoring levels of residual realizations. Residual realizations, by business and product, are reviewed as part of our quarterly financial and asset quality review. Reviews for impairment are performed at least annually.

The RMG teams review the air and rail markets; monitoring traffic flows, measuring supply and demand trends, and evaluating the impact of new technology or regulatory requirements on supply and demand for different types of equipment. Commercial air is more global, while the rail market is regional, mainly North America and Europe. Demand for both passenger and freight equipment is correlated with GDP growth trends for the markets the equipment serves as well as the more immediate conditions of those markets. Cyclicalities in the economy and shifts in travel and trade flows due to specific events (e.g., natural disasters, conflicts, political upheaval, disease, and terrorism) represent risks to the earnings that can be realized by these businesses. CIT seeks to mitigate these risks by maintaining relatively young fleets of assets with wide operator bases, which can facilitate attractive lease and utilization rates.

### **MARKET RISK**

CIT is exposed to interest rate and currency risk as a result of its business activities. Generally, 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 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**

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

- Net Interest Income Sensitivity ("NII Sensitivity"), which measures the net impact of hypothetical changes in interest rates on net finance revenue; and
- Economic Value of Equity ("EVE"), which measures the net impact of these hypothetical changes on the value of equity by assessing the market 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, operating leases, cash and investments. We use a variety of funding sources, including retail and brokered CDs, savings accounts, and secured and unsecured debt. Our leasing products are level/fixed payment transactions, whereas the interest rate on the majority of our commercial loan portfolio is based off of a floating rate index such as short-term Libor or Prime. Our debt securities within the investment portfolio, securities purchased under agreements to resell and interest bearing deposits (cash) have short durations and reprice frequently. With respect to liabilities, CDs and unsecured debt are fixed rate, secured debt



## Edgar Filing: CIT GROUP INC - Form 10-K

is a mix of fixed and floating rate, and the rates on savings accounts are established based on the market environment and competition. The composition of our assets and liabilities generally results in a relatively small net asset-sensitive position at the shorter end of the yield curve, mostly 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 sources deposits primarily through direct-to-consumer (via the internet) and brokered channels. At December 31, 2014, the Bank had approximately \$16 billion in deposits, more than half of which were obtained through our direct channel while approximately 38% were sourced through brokers with the remainder from institutional and other sources. Fixed rate, term deposits represented over 62% of our deposit portfolio. The deposit rates we offer can be influenced by market conditions and competitive factors. Changes in interest rates can affect our pricing and potentially impact our ability to gather and retain deposits. Rates offered by competitors also can influence our rates and our

### Table of Contents

CIT ANNUAL REPORT 2014 69

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, on a lagging basis. 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. Our ability to gather brokered deposits may be more sensitive to rate changes than other types of deposits. We manage this risk by limiting maturity concentration and emphasizing new issuance in long-dated maturities of up to ten years. We regularly stress test the effect of deposit rate changes on our margins and seek to achieve optimal alignment between assets and liabilities from an interest rate risk management perspective.

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

	December 31, 2014		December 31, 2013	
	+100 bps	-100 bps	+100 bps	-100 bps
NII Sensitivity	6.4%	(0.8)%	6.1%	(0.9)%
EVE	1.9%	(1.6)%	1.8%	(2.0)%

A primary driver of the change in NII Sensitivity was the sale in April 2014 of the student lending business, which had, as of December 31, 2013, a portfolio of \$3.4 billion of government-guaranteed student loans and associated \$3.3 billion of floating rate debt that was extinguished upon sale. The December 31, 2013 amounts reflect the simulation results on our portfolio at that time, which included the student lending business.

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

EVE complements net interest income simulation and sensitivity analysis as it estimates risk exposures beyond a twelve month horizon. EVE modeling measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to different rate shocks, measuring the net value of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the base case of an unchanged interest rate environment. The duration of our liabilities is greater than that of our assets, in that we have more

fixed rate liabilities than assets in the longer term, causing EVE to increase under increasing rates and decrease under decreasing rates. The methodology with which the operating lease assets are assessed in the results table above reflects the existing contractual rental cash flows and the expected residual value at the end of the existing contract term. The simulation modeling for both NII Sensitivity and EVE assumes we take no action in response to the changes in interest rates.

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 policy limits.

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

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

### **Foreign Currency Risk**

We seek to hedge transactional exposure of our non-dollar denominated activities, which were comprised of foreign currency loans and leases to foreign entities, through local currency borrowings. To the extent such borrowings were unavailable, we have utilized derivative instruments (foreign currency exchange forward contracts and cross currency swaps) to hedge our

## **Item 7: Management's Discussion and Analysis**

---

### **Table of Contents**

**70** CIT ANNUAL REPORT 2014

non-dollar denominated activities. Additionally, we have utilized derivative instruments to hedge the translation exposure of our net investments in foreign operations.

Currently, our non-dollar denominated loans and leases are largely funded with U.S. dollar denominated debt and equity which, if unhedged, would cause foreign currency transactional and translational exposures. For the most part, we hedge these exposures through derivative instruments. RMG sets limits and monitors usage to ensure that currency positions are appropriately hedged, as unhedged exposures may cause changes in earnings or the equity account.

### **LIQUIDITY RISK**

## Edgar Filing: CIT GROUP INC - Form 10-K

Our liquidity risk management and monitoring process is designed to ensure the availability of adequate cash resources and funding capacity to meet our obligations. Our overall liquidity management strategy is intended to ensure ample liquidity to meet expected and contingent funding needs under both normal and stress environments. Consistent with this strategy, we maintain large pools of cash and highly liquid investments. Additional sources of liquidity include the Amended and Restated Revolving Credit and Guaranty Agreement (the "Revolving Credit Facility"), other committed financing facilities and cash collections generated by portfolio assets originated in the normal course of business.

We utilize a series of measurement tools to assess and monitor the level and adequacy of our liquidity position, liquidity conditions and trends. The primary tool is a cash forecast designed to identify material movements in cash flows. Stress scenarios are applied to measure the resiliency of the liquidity position and to identify stress points requiring remedial action. Also included among our liquidity measurement tools is an early warning system (summarized on an Early Warning Indicator Report (EWI)) that monitors key macro-environmental and company specific metrics that serve as early warning signals of potential impending liquidity stress events. Event triggers are categorized by severity into a three-level stress monitoring system; Moderately Enhanced Crisis, Heightened Crisis, and Maximum Crisis. Assessments outside defined thresholds trigger contingency funding actions, which are detailed in the Company's Contingency Funding Plan ("CFP").

Integral to our liquidity management practices is our CFP, which outlines actions and protocols under liquidity stress conditions, whether they are idiosyncratic or systemic in nature and defines the thresholds that trigger contingency funding actions. The objective of the CFP is to ensure an adequately sustained level of liquidity under certain stress conditions.

### CAPITAL RISK

Capital Risk is the risk that the Company does not have adequate capital to cover its risks and to support its growth and strategic objectives. CIT establishes internal capital risk limits and warning thresholds, using both Economic and Risk-Based Capital calculations as well as stress testing, including DFAST, to evaluate the Company's capital adequacy for multiple types of risk in both normal and stressed environments. Economic capital includes credit risk, asset risk, market risk, operational risk and model risk. Stress testing assesses the potential impact of adverse scenarios — both regulatory and internally generated — on our consolidated earnings, losses, and capital over a planning horizon and takes into account our current condition, risks, exposures, strategies and activities. The capital risk framework requires contingency plans for stress results that would breach the established capital thresholds.

### OPERATIONAL RISK

Operational risk is the risk of financial loss or other adverse impacts resulting from inadequate or failed internal processes and systems, people or external events. Operational Risk may result from fraud by employees or persons outside the Company, transaction processing errors, employment practices and workplace safety issues, unintentional or negligent failure to meet professional obligations to clients, business interruption due to system failures, or other external events.

Operational risk is managed within individual business units. The head of each business and functional area is responsible for maintaining an effective system of internal controls to mitigate operational risks. The business segment Chief Operating Officers ("COO") designate Operational Risk Managers responsible for implementation of the Operational Risk framework programs. The Enterprise Operational Risk function provides oversight in managing operational risk, designs and supports the enterprise-wide Operational Risk framework programs, and promotes awareness by providing training to employees and Operational Risk Managers within business units and functional areas. Additionally, Enterprise Operational Risk maintains the Loss Data Collection and Risk Assessment programs. Oversight of the operational risk management function is provided by RMG, the RMC, the Enterprise Risk Committee and the Operational and Information Technology Risk Working Group.

### INFORMATION TECHNOLOGY RISK

Information Technology risks are risks around information security, cyber-security, and business disruption from systems implementation or downtime, that could adversely impact the organization's business or business processes, including loss or legal liability due to unauthorized (malicious or accidental) disclosure, modification, or destruction of information, unintentional errors and omissions, IT disruptions due to natural or man-made disasters, or failure to exercise due care and diligence in the implementation and operation of an IT system.

The Information Risk function provides oversight of the Information Security and Business Continuity Management (BCM) programs. Information Security provides guidance across the organization intended to preserve and protect the confidentiality, integrity, and availability of CIT information and information systems. BCM provides oversight of CIT's global Business Continuity Planning through planning and implementation of proactive, preventive, and corrective actions intended to enable continuous business operations in the event of a disaster, including technology recovery. Information Risk is responsible for the ongoing IT risk

assessments of CIT's applications, infrastructure and third party vendors, as well as information security and BCM training and awareness for employees, contingent workers and consultants.

Oversight of the Information Risk function is provided by the RMG, the Board Risk Management Committee, the Enterprise Risk Committee and the Operational and Information Technology Risk Working Group.

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 71

### **LEGAL and REGULATORY RISK**

CIT is subject to a number of laws and regulations, both in the U.S. and in other countries in which it does business, some of which are applicable primarily to financial services and others of which have general applicability to all businesses. Any failure to comply with applicable laws and regulations may result in governmental investigations and inquiries, legal proceedings, including both private and governmental plaintiffs, significant monetary damages, fines, or penalties, restrictions on the way in which we conduct our business, or reputational harm. To reduce these risks, the Company consults regularly with legal counsel, both internal and external, on significant legal and regulatory issues and has established a compliance function to facilitate maintaining compliance with applicable laws and regulations.

Corporate Compliance is an independent function responsible for maintaining an enterprise-wide compliance risk management program commensurate with the size, scope and complexity of our businesses, operations, and the countries in which we operate. The Compliance function (1) oversees programs and processes to evaluate and monitor compliance with laws and regulations pertaining to our business, (2) tests the adequacy of the compliance control environment in each business, and (3) monitors and promotes compliance with the Company's ethical standards as set forth in our Code of Business Conduct and compliance policies. Corporate Compliance, led by the Chief Ethics and Compliance Officer, is responsible for setting the overall global compliance framework and standards, using a risk based approach to identify and manage key compliance obligations and risks. The head of each business and staff function is responsible for ensuring compliance within their respective areas of authority. Corporate Compliance, through the Chief Ethics and Compliance Officer, reports administratively to the CRO and to the Chairperson of the Audit Committee of the Board of Directors.

The global compliance risk management program includes training (in collaboration with a centralized Learning and Development team within Human Resources), testing, monitoring, risk assessment, and other disciplines necessary to effectively manage compliance and regulatory risks. The Company consults with subject matter experts in the areas of privacy, sanctions, anti-money laundering, anti-corruption compliance and other areas.

Corporate Compliance has implemented comprehensive compliance policies and procedures and employs Business Unit Compliance Officers and Regional Compliance Officers who work with each business to advise business staff and leadership in the prudent conduct of business within a regulated environment and within the requirements of law, rule, regulation and the control environment we maintain to reduce the risk of violations or other adverse outcomes. They advise business leadership and staff with respect to the implementation of procedures to operationalize compliance policies and other requirements.

### **REPUTATIONAL RISK**

Reputational Risk is the potential that negative publicity, whether true or not, will cause a decline in the value of the Company due to changes in the customer base, costly litigation, or other revenue reductions. Protecting CIT, its shareholders, employees and brand against reputational risk is of paramount importance to the Company. To address this mandate CIT has established corporate governance standards relating to its Code of Business Conduct and ethics. During 2014, the Company expanded the Chief Compliance Officer's responsibilities by appointing him to the role of Chief Ethics Officer. In this combined role, his responsibilities were extended to encompass compliance not only with laws and regulations, but also with CIT's values and its Code of Business Conduct.

The Company has adopted, and the Board of Directors has approved, a Code of Business Conduct, applicable to all directors, officers and employees, which details acceptable behaviors in conducting the Company's business and acting on the Company's behalf. The Code of Business Conduct covers conflicts of interest, corporate opportunities, confidentiality, fair dealing (with respect

## Edgar Filing: CIT GROUP INC - Form 10-K

to customers, suppliers, competitors and employees), protection and proper use of Company assets, compliance with laws, and encourages reporting of unethical or illegal behavior, including through a Company hotline. Annually, each employee is trained on the Code of Business Conduct's requirements, and provides an attestation as to their understanding of the requirements and their responsibility to comply.

CIT's Executive Management Committee ("EMC") has established, and approved, the charter of a Global Ethics Committee. The Ethics Committee is chaired by CIT's General Counsel and Corporate Secretary. Its members include the Chief Ethics and Compliance Officer, Chief Auditor, Head of Human Resources and the Head of Communications, Marketing & Government Relations. The Committee is charged with (a) oversight of the Code of Business Conduct and Company Values, (b) seeing that CIT's ethical standards are communicated, upheld and enforced in a consistent manner, and (c) periodic reporting to the EMC and Audit Committee of the Board of Directors of employee misconduct and related disciplinary action.

CIT's IAS monitors and tests the overall effectiveness of internal control and operational systems on an ongoing basis and reports results to senior management and to the Audit Committee of the Board.

---

## FUNDING AND LIQUIDITY

CIT actively manages and monitors its funding and liquidity sources against relevant limits and targets. These sources satisfy funding and other operating obligations, while also providing protection against unforeseen stress events like unanticipated funding obligations, such as customer line draws, or disruptions to capital markets or other funding sources. Primary liquidity sources include:

- Cash totaled \$7.1 billion at December 31, 2014, compared to \$6.0 billion at December 31, 2013 and \$6.7 billion at December 31, 2012. Cash at December 31, 2014 consisted of \$1.6 billion related to the bank holding company, and

### Item 7: Management's Discussion and Analysis

---

#### Table of Contents

72 CIT ANNUAL REPORT 2014

\$3.7 billion at CIT Bank (including \$0.1 billion of restricted cash), with the remainder comprised of cash at operating subsidiaries and other restricted balances of approximately \$0.9 billion each. During February 2015, \$1.2 billion of cash was used to repay maturing unsecured notes.

- Securities purchased under agreements to resell ("reverse repurchase agreements") totaled \$650 million at December 31, 2014. Beginning in the third quarter, CIT entered into reverse repurchase agreements in an effort to improve returns on excess liquidity. These agreements are short-term securities that had maturity dates of 90 days or less, had a weighted average yield of approximately 50 bps and are secured by the underlying collateral, which is maintained at a third-party custodian. Interest earned on these securities is included in 'Other interest and dividends' in the statement of operations. See *Note 6 — Securities Purchased Under Resale Agreements* in *Item 8 Financial Statements and Supplementary Data* for further details.
- Short-term investment securities totaled \$1.1 billion at December 31, 2014, which consisted of U.S. Government Agency discount notes and U.S. Treasury bills that were classified as AFS and had remaining maturity dates of 90 days or less, compared to \$1.5 billion at December 31, 2013 and \$0.8 billion at December 31, 2012. The 2013 balance did not include \$0.7 billion of certain securities that were classified as HTM.
- A \$1.5 billion multi-year committed revolving credit facility, of which \$1.4 billion was unused at December 31, 2014; and
- Committed securitization facilities and secured bank lines that totaled \$4.8 billion, of which \$2.8 billion was unused at December 31, 2014, provided that eligible assets are available that can be funded through these facilities.

Asset liquidity is further enhanced by our ability to sell or syndicate portfolio assets in secondary markets (as discussed in *Results by Business Segments*), which also enables us to manage credit exposure, and to pledge assets to access secured borrowing facilities through the Federal Home Loan Banks ("FHLB") and FRB.

In addition to the funding requirements to organically grow our assets, the OneWest Transaction will require additional funding. The acquisition price of \$3.4 billion includes a cash portion of \$2.0 billion, which may require us to issue debt for all or some portion thereof.

As a result of our continued funding and liability management initiatives, we further reduced the weighted average coupon rates on outstanding deposits and long-term borrowings to 3.11% at December 31, 2014, down from 3.33% and 3.52% at December 31, 2013 and December 31, 2012, respectively. The following table reflects our funding mix:

### Funding Mix at December 31

	2014	2013	2012
Deposits	46%	40%	35%
Secured	19%	19%	23%
Unsecured	35%	41%	42%

The higher deposit base is reflective of the growth in CIT Bank assets. While the unsecured notes outstanding in dollar amount remained relatively flat compared to December 31, 2013, the change in percentage of the total funding is more pronounced. The percentage of secured funding for each period excludes the debt related to the student lending business, which was reported in discontinued operation and extinguished in April 2014.

### Deposits

We continued to grow deposits during 2014 to fund our bank lending and leasing activities. Deposits totaled \$15.8 billion at December 31, 2014, up from \$12.5 billion at December 31, 2013 and \$9.7 billion at December 31, 2012, essentially all of which are in CIT Bank. The weighted average coupon rate of total deposits at December 31, 2014 was 1.69%, up from 1.65% at December 31, 2013, primarily due to an increase in term deposits with longer maturities, and down from 1.75% at December 31, 2012.

The following table details our deposits by type:

### Deposits at December 31 (dollars in millions)

	2014	2013	2012
Online deposits	\$ 8,858.5	\$ 6,117.5	\$ 4,643.4
Brokered CDs / sweeps	5,986.0	5,365.4	4,251.6
Other <sup>(1)</sup>	1,005.3	1,043.6	789.5
Total	\$ 15,849.8	\$ 12,526.5	\$ 9,684.5

<sup>(1)</sup> Other primarily includes a deposit sweep arrangement related to Healthcare Savings Accounts and deposits at our Brazil bank.

### Long-term Borrowings

Long-term borrowings consist of unsecured and secured debt and totaled \$18.5 billion at December 31, 2014, unchanged from December 31, 2013 and up slightly from \$18.3 billion at December 31, 2012. The weighted average coupon rate of long-term borrowings at December 31, 2014 was 4.32%, down from 4.47% at December 31, 2013 and 4.45% at December 31, 2012.

## Unsecured

### Revolving Credit Facility

There were no borrowings outstanding under the Revolving Credit Facility at December 31, 2014. The amount available to draw upon at December 31, 2014 was approximately \$1.4 billion, with the remaining amount of approximately \$0.1 billion utilized for issuance of letters of credit.

The Revolving Credit Facility was amended in January 2014 to reduce the total commitment amount from \$2.0 billion to \$1.5 billion and extend the maturity date of the commitment to January 27, 2017. The total commitment amount consists of a \$1.15 billion revolving loan tranche and a \$350 million revolving loan tranche that can also be utilized for issuance of letters of credit. The applicable margin charged under the facility is 2.50% for LIBOR-based loans and 1.50% for Base Rate loans. Improvement in CIT's long-term senior unsecured debt ratings to either BB by S&P or Ba2 by Moody's would result in a reduction in the applicable margin to 2.25% for LIBOR-based loans and to 1.25% for Base Rate loans. A downgrade in CIT's long-term senior unsecured debt ratings to B+ by S&P and B1 by Moody's would result in an increase in the applicable margin to 2.75% for LIBOR-based loans and to 1.75% for Base Rate loans. In the event of a one notch downgrade by only one of the agencies, no change to the margin charged under the facility would occur.

---

### Table of Contents

CIT ANNUAL REPORT 2014 73

The Revolving Credit Facility is unsecured and is guaranteed by eight of the Company's domestic operating subsidiaries. The facility was amended to modify the covenant requiring a minimum guarantor asset coverage ratio and the criteria for calculating the ratio. The amended covenant requires a minimum guarantor asset coverage ratio ranging from 1.25:1.0 to the current requirement of 1.5:1.0 depending on the Company's long-term senior unsecured debt rating. As of December 31, 2014, the last reported asset coverage ratio was 2.70x.

### Senior Unsecured Notes

At December 31, 2014, unsecured notes outstanding totaled \$11.9 billion, compared to \$12.5 billion and \$11.8 billion at December 31, 2013 and 2012, respectively. The weighted average coupon rate of unsecured long-term borrowings at December 31, 2014 was 5.00%, down from 5.11% at December 31, 2013 and 5.12% at December 31, 2012.

The following highlight our significant unsecured notes transactions during 2014:

- On November 12, 2014, CIT repurchased \$300 million of 4.75% unsecured notes that had a maturity date in February 2015, and recorded a \$3 million loss on extinguishment. The remaining \$1.2 billion of this tranche was outstanding at December 31, 2014 and repaid in February 2015.
- On April 1, 2014, we repaid \$1.3 billion of maturing 5.25% unsecured notes.
- On February 19, 2014, CIT issued, at par value, \$1 billion aggregate principal amount of senior unsecured notes due 2019 that bear interest at a rate of 3.875%.

See *Note 10 — Long-term Borrowings* in *Item 8 Financial Statements and Supplementary Data* for further detail.

## Secured

Secured borrowings totaled \$6.5 billion at December 31, 2014, compared to \$6.0 billion and \$6.5 billion at December 31, 2013 and 2012, respectively. The weighted average coupon rate of secured long-term borrowings at December 31, 2014 was 3.10%, down from 3.12% at December 31, 2013 and 3.23% at December 31, 2012.

## Edgar Filing: CIT GROUP INC - Form 10-K

The secured borrowings increase from 2013 reflects debt acquired with the Nacco and Direct Capital acquisitions, partially offset by net repayments. Secured debt associated with the Nacco acquisition totaled approximately \$375 million. Secured debt associated with the Direct Capital acquisition included six separate facilities representing \$581 million in total commitments at the acquisition date. The outstanding balance for these acquired facilities totaled \$486 million at the acquisition date, consisting of four revolving facilities (\$293 million) and two term asset-backed securitization facilities (\$193 million).

Other notable 2014 facility transactions included:

- In the first quarter, CIT renewed a CAD 250 million committed multi-year conduit facility that allows the Canadian Equipment Finance business to fund both existing assets and new originations at attractive terms.
- In the second quarter, CIT Bank renewed and extended to 2016 an existing \$1 billion committed multi-year Equipment Finance conduit facility.
- In the third quarter, CIT closed a \$640 million aerospace securitization, and funded it within the GSI TRS.
- During the fourth quarter, CIT Bank closed a \$750 million equipment lease securitization that had a weighted average coupon of 1.37% and was secured by U.S. equipment finance receivables.

CIT Bank secured borrowings totaled \$1.9 billion and \$0.9 billion at December 31, 2014 and 2013, respectively, which were secured by \$2.4 billion and \$1.0 billion of pledged assets at December 31, 2014 and 2013. Non-bank secured borrowings were \$4.7 billion and \$5.1 billion at December 31, 2014 and 2013, respectively, and were secured by assets of \$8.3 billion and \$8.6 billion, respectively.

As part of our liquidity management strategy, we may pledge assets to secure financing transactions (which include securitizations), to secure borrowings from the FHLB or for other purposes as required or permitted by law. Our secured financing transactions do not meet accounting requirements for sale treatment and are recorded as secured borrowings, with the assets remaining on-balance sheet pursuant to GAAP. The debt associated with these transactions is collateralized by receivables, leases and/or equipment. Certain related cash balances are restricted.

CIT Bank is a member of the FHLB of Seattle and may borrow under a line of credit that is secured by collateral pledged to FHLB Seattle. CIT Bank had \$125 million outstanding under the line and \$168 million of commercial real estate assets were pledged as collateral at December 31, 2014. A subsidiary of CIT Bank is a member of FHLB Des Moines and may borrow under lines of credit that are secured by a blanket lien on the subsidiary's assets and collateral pledged to FHLB Des Moines. At December 31, 2014, \$130 million of advances were outstanding and \$142 million of collateral was pledged with FHLB Des Moines.

See *Note 10 — Long-Term Borrowings* in *Item 8 Financial Statements and Supplementary Data* for a table displaying our consolidated secured financings and pledged assets.

### **GSI Facilities**

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

At December 31, 2014, a total of \$1,809.3 million of assets and secured debt totaling \$1,221.4 million issued to investors was outstanding under the GSI Facilities. After adjustment to the amount of actual qualifying borrowing base under terms of the GSI Facilities, this secured debt provided for usage of \$1,033.1 million of the maximum notional amount of the GSI Facilities. The remaining \$1,091.9 million of the maximum notional amount represents the unused portion of the GSI Facilities and constitutes the notional amount of derivative financial instruments. Unsecured counterparty receivable of \$559.2 million is owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to asset-backed



**Table of Contents**

74 CIT ANNUAL REPORT 2014

securities underlying the structures at December 31, 2014. The counterparty receivable was up from \$301.6 million at December 31, 2013 as a proportionate amount of the balance had been allocated to discontinued operation, i.e. the former student lending business. Upon sale of the secured assets and repayment of the secured debt, the full capacity of the facility from a presentation perspective reverted back to the continuing operations.

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

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

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

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

Based on the Company's valuation, we recorded a liability of \$25 million, \$10 million and \$6 million at December 31, 2014, 2013 and 2012, respectively. During 2014, 2013 and 2012, we recognized \$15 million, \$4 million and \$6 million, respectively, as a reduction to other income associated with the change in liability.

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

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

See *Note 11 — Derivative Financial Instruments* in *Item 8 Financial Statements and Supplementary Data* for further information.

**Debt Ratings**

## Edgar Filing: CIT GROUP INC - Form 10-K

Debt ratings can influence the cost and availability of short-and long-term funding, the terms and conditions on which such funding may be available, the collateral requirements, if any, for borrowings and certain derivative instruments, the acceptability of our letters of credit, and the number of investors and counterparties willing to lend to the Company. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect the Company's liquidity and financial condition.

Our debt ratings at December 31, 2014 as rated by Standard & Poor's Ratings Services ("S&P"), Fitch Ratings, Inc. ("Fitch"), Moody's Investors Service ("Moody's") and Dominion Bond Rating Service ("DBRS") are presented in the following table and, other than the resumption of rating by Fitch, were unchanged from December 31, 2013.

### Debt Ratings as of December 31, 2014

	<u>S&amp;P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>DBRS</u>
Issuer / Counterparty Credit Rating	BB-	BB+	Ba3	BB
Revolving Credit Facility Rating	BB-	BB+	Ba3	BBB (Low)
Series C Notes / Senior Unsecured Debt Rating	BB-	BB+	Ba3	BB
Outlook	Positive	Stable	Stable	Positive

Rating Agency changes during 2014 include the re-initiation of coverage by Fitch Ratings, Inc. in December, 2014. In addition, after the July 22, 2014 announcement of our definitive agreement to acquire OneWest Bank, Moody's affirmed its Ba3 corporate family rating and placed our Ba3 senior unsecured rating on review for possible downgrade; S&P affirmed its BB- rating and retained its positive outlook; and DBRS placed its BB rating under review with positive implications.

Rating agencies indicate that they base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in Dodd-Frank. Potential changes in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above could impact our liquidity and financial condition.

---

### Table of Contents

CIT ANNUAL REPORT 2014 75

A debt rating is not a recommendation to buy, sell or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

### **Tax Implications of Cash in Foreign Subsidiaries**

Cash held by foreign subsidiaries totaled \$1.8 billion, including cash available to the BHC and restricted cash, at December 31, 2014, compared to \$1.8 billion and \$1.6 billion at December 31, 2013 and 2012, respectively.

Other than in a limited number of jurisdictions, Management does not intend to indefinitely reinvest foreign earnings.

### **Contractual Payments and Commitments**

The following tables summarize significant contractual payments and contractual commitment expirations at December 31, 2014. Certain amounts in the payments table are not the same as the respective balance sheet totals, because this table is based on contractual amounts and excludes items such as issue discounts and FSA discounts. Actual cash flows could vary materially from those depicted in the payments table as further explained in the table footnotes.

**Payments for the Twelve Months Ended December 31<sup>(1)</sup>** (dollars in millions)

	<u>Total</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019+</u>
Secured borrowings <sup>(2)</sup>	\$ 6,514.0	\$ 1,853.3	\$ 1,125.8	\$ 893.2	\$ 626.1	\$ 2,015.6
Senior unsecured	11,951.4	1,200.0	—	3,000.0	2,200.0	5,551.4
<b>Long-term borrowings</b>	<b>18,465.4</b>	<b>3,053.3</b>	<b>1,125.8</b>	<b>3,893.2</b>	<b>2,826.1</b>	<b>7,567.0</b>
Deposits	15,851.2	6,988.4	1,670.6	2,398.2	928.2	3,865.8
Credit balances of factoring clients	1,622.1	1,622.1	—	—	—	—
Lease rental expense	170.2	31.3	29.5	25.7	24.5	59.2
<b>Total contractual payments</b>	<b>\$ 36,108.9</b>	<b>\$ 11,695.1</b>	<b>\$ 2,825.9</b>	<b>\$ 6,317.1</b>	<b>\$ 3,778.8</b>	<b>\$ 11,492.0</b>

<sup>(1)</sup> Projected payments of debt interest expense and obligations relating to postretirement programs are excluded.

<sup>(2)</sup> Includes non-recourse secured borrowings, which are generally repaid in conjunction with the pledged receivable maturities, and excludes debt associated with discontinued operation.

**Commitment Expiration by Twelve Month Periods Ended December 31** (dollars in millions)

	<u>Total</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019+</u>
Financing commitments	\$ 4,747.9	\$ 729.4	\$ 838.8	\$ 947.8	\$ 957.4	\$ 1,274.5
Aerospace manufacturer purchase commitments <sup>(1)</sup>	10,820.4	945.7	534.2	847.0	2,211.0	6,282.5
Rail and other manufacturer purchase commitments	1,323.2	943.0	380.2	—	—	—
Letters of credit	388.4	51.7	35.8	60.1	84.1	156.7
Deferred purchase agreements	1,854.4	1,854.4	—	—	—	—
Guarantees, acceptances and other recourse obligations	2.8	2.8	—	—	—	—
Liabilities for unrecognized tax obligations <sup>(2)</sup>	53.7	10.0	43.7	—	—	—
<b>Total contractual commitments</b>	<b>\$ 19,190.8</b>	<b>\$ 4,537.0</b>	<b>\$ 1,832.7</b>	<b>\$ 1,854.9</b>	<b>\$ 3,252.5</b>	<b>\$ 7,713.7</b>

<sup>(1)</sup> Aerospace commitments are net of amounts on deposit with manufacturers.

<sup>(2)</sup> The balance cannot be estimated past 2016; therefore the remaining balance is reflected in 2016.

Financing commitments increased from \$4.3 billion at December 31, 2013 to \$4.7 billion at December 31, 2014. This includes commitments that have been extended to and accepted by customers or agents, but on which the criteria for funding have not been completed of \$355 million at December 31, 2014 and \$548 million at December 31, 2013. Also included are Commercial Services credit line agreements, with an amount available of \$112 million at December 31, 2014, net of amount of receivables assigned to us. These are cancellable by CIT only after a notice period.

At December 31, 2014, substantially all our undrawn financing commitments were senior facilities, with approximately 80% secured by equipment or other assets and the remainder comprised of cash flow or enterprise value facilities. Most of our undrawn and available financing commitments are in the Corporate Finance division of NACF. The top ten undrawn commitments totaled \$392 million at December 31, 2014.

The table above includes approximately \$1.3 billion of undrawn financing commitments at December 31, 2014 and \$0.9 billion at December 31, 2013 that were not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend.

See *Note 21 — Commitments* in *Item 8 Financial Statements and Supplementary Data* for further detail.

**Item 7: Management's Discussion and Analysis**

---

**Table of Contents**

76 CIT ANNUAL REPORT 2014

---

**CAPITAL**

**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.

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

CIT monitors regulatory capital ratios, ECAP measures and liquidity metrics under baseline and stress scenario forecasts to support the capital adequacy assessment process. Regulatory capital ratios indicate CIT’s capital adequacy using regulatory definitions of available capital, such as Common Equity Tier 1, Tier 1, and Total Capital, and regulatory measures of portfolio risk such as risk weighted assets. As of December 31, 2014 and prior, CIT reported regulatory capital under the general risk-based capital rules based on the Basel I framework. Beginning January 1, 2015, CIT reports regulatory capital ratios in accordance with the Basel III Final Rule and determines risk weighted assets under the Standardized Approach. See the “Regulation” section of Item 1 Business Overview for further detail regarding regulatory matters, including “*Basel III*”, “*Capital Requirements*” and “*Leverage Requirements*”.

ECAP ratios provide a view of capital adequacy that take into account CIT’s specific risks by comparing CIT’s unexpected losses to its capital available to absorb losses. ECAP is calculated using statistically defined stress events over a one year time horizon, which is consistent with CIT’s risk appetite.

As part of the capital and strategic planning processes, CIT forecasts capital adequacy under baseline and stress scenarios, including the supervisory scenarios provided by the Federal Reserve for consideration in Dodd-Frank Act stress testing. Per the Dodd-Frank Act, both CIT Group and CIT Bank are required to perform annual stress tests as prescribed for institutions with total assets greater than \$10 billion but less than \$50 billion.

Stress tests are run under the three supervisory scenarios provided annually by the Federal Reserve: Baseline, Adverse, and Severely Adverse. Scenarios include 9 quarter projections of macroeconomic factors that are used to measure and/or indicate the outlook of specific aspects of the economy. These macroeconomic projections form the basis for CIT’s capital adequacy results presented for each scenario.

Once we exceed \$50 Billion SIFI Threshold, as is anticipated if the OneWest Transaction is approved and completed, CIT would also be subject to stress test requirements for covered companies (subpart G of the FRB’s Regulation YY). Annually, CIT would be required to submit a capital plan along with Company-run stress test results using the Federal Reserve’s supervisory economic scenarios. Furthermore, CIT would also be required to conduct annual and mid-cycle Company-run stress tests with

## Edgar Filing: CIT GROUP INC - Form 10-K

company-developed economic scenarios for submission to the FRB.

### Return of Capital

Capital returned in 2014 totaled \$870 million, including \$95 million in dividends and repurchases of approximately \$775 million of our common stock.

In January and April 2014, the Board of Directors approved the repurchase of up to \$307 million and \$300 million, respectively, of common stock through December 31, 2014. On July 22, 2014, the Board of Directors approved an additional repurchase of up to \$500 million of common stock through June 30, 2015. After the 2015 purchases, \$114 million remained of the authorized repurchase capacity that expires on June 30, 2015.

During 2014, we repurchased over 17 million of our shares for an aggregate purchase price of \$775 million, at an average price of \$45.42. Through January 31, 2015, we repurchased an additional 4.7 million shares for an aggregate purchase price of \$212 million. The repurchases were effected via open market purchases and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended.

During the year, the common stock quarterly dividend was increased 50% to \$0.15 per share. Our 2014 common stock dividends were as follows:

### 2014 Dividends

Declaration Date	Payment Date	Per Share Dividend
January	February 28, 2014	\$ 0.10
April	May 30, 2014	\$ 0.10
July	August 29, 2014	\$ 0.15
October	November 26, 2014	\$ 0.15

### Capital Composition and Ratios

The Company is subject to various regulatory capital requirements. The regulatory capital guidelines currently applicable to the Company are based on the Capital Accord of the Basel Committee on Banking Supervision (Basel I). We compute capital ratios in accordance with Federal Reserve capital guidelines for assessing adequacy of capital. To be well capitalized, a BHC generally must maintain Tier 1 and Total Capital Ratios of at least 6% and 10%, respectively. The Federal Reserve Board also has established minimum guidelines. The minimum ratios are: Tier 1 Capital Ratio of 4.0%, Total Capital Ratio of 8.0% and Tier 1 Leverage Ratio of 4.0%. In order to be considered a "well capitalized" depository institution under FDIC guidelines, the Bank must maintain a Tier 1 Capital Ratio of at least 6%, a Total Capital Ratio of at least 10%, and a Tier 1 Leverage Ratio of at least 5%.

### Table of Contents

CIT ANNUAL REPORT 2014 77

### Tier 1 Capital and Total Capital Components (dollars in millions)

	December 31,		
	2014	2013	2012
<b>Tier 1 Capital</b>			
Total stockholders' equity	\$ 9,068.9	\$ 8,838.8	\$ 8,334.8

Edgar Filing: CIT GROUP INC - Form 10-K

December 31,

Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interests	53.0	24.2	41.1
Adjusted total equity	9,121.9	8,863.0	8,375.9
Less: Goodwill <sup>(1)</sup>	(571.3)	(338.3)	(345.9)
Disallowed deferred tax assets	(416.8)	(26.6)	(61.4)
Disallowed intangible assets <sup>(1)</sup>	(25.7)	(20.3)	(32.7)
Investment in certain subsidiaries	(36.7)	(32.3)	(34.4)
Other Tier 1 components <sup>(2)</sup>	(4.1)	(6.0)	(6.6)
Tier 1 Capital	8,067.3	8,439.5	7,894.9
<b>Tier 2 Capital</b>			
Qualifying reserve for credit losses and other reserves <sup>(3)</sup>	381.8	383.9	402.6
Less: Investment in certain subsidiaries	(36.7)	(32.3)	(34.4)
Other Tier 2 components <sup>(4)</sup>	–	0.1	0.5
Total qualifying capital	\$ 8,412.4	\$ 8,791.2	\$ 8,263.6
Risk-weighted assets	\$ 55,480.9	\$ 50,571.2	\$ 48,616.9
<b>BHC Ratios</b>			
Tier 1 Capital Ratio	14.5%	16.7%	16.2%
Total Capital Ratio	15.2%	17.4%	17.0%
Tier 1 Leverage Ratio	17.4%	18.1%	18.3%
<b>CIT Bank Ratios</b>			
Tier 1 Capital Ratio	13.0%	16.8%	21.5%
Total Capital Ratio	14.2%	18.1%	22.7%
Tier 1 Leverage Ratio	12.2%	16.9%	20.2%

<sup>(1)</sup> Goodwill and disallowed intangible assets adjustments also reflect the portion included within assets held for sale.

<sup>(2)</sup> Includes the Tier 1 capital charge for nonfinancial equity investments and the Tier 1 capital deduction for net unrealized losses on available-for-sale marketable securities (net of tax).

<sup>(3)</sup> "Other reserves" represents additional credit loss reserves for unfunded lending commitments, letters of credit, and deferred purchase agreements, all of which are recorded in Other Liabilities.

<sup>(4)</sup> Banking organizations are permitted to include in Tier 2 Capital up to 45% of net unrealized pretax gains on available-for-sale equity securities with readily determinable fair values.

The change in common stockholders' equity from December 31, 2013 was primarily driven by Net Income of \$1,130 million, including the benefit of the reversal of the valuation allowance on the deferred tax asset of \$419 million, less the impact of share repurchases, \$775 million, and dividends of \$95 million.

In addition to the changes in common stockholders' equity, Regulatory Capital is also negatively affected by certain adjustments. During 2014, the primary changes to these balances included:

- In the third quarter, we recorded a partial reversal of our U.S. Federal deferred tax asset valuation allowance of \$375 million. In the fourth quarter, an additional \$44 million was recorded for the reversal of the valuation allowance related to our international deferred tax assets. These reversals benefited net income and stockholders' equity but had minimal impact on our regulatory capital ratios as the majority of the deferred tax asset balance is disallowed for regulatory capital purposes.
- The increase in goodwill and intangible assets due to the acquisitions of Direct Capital in the third quarter and Nacco in the first quarter, is also disallowed for regulatory capital purposes.

## Edgar Filing: CIT GROUP INC - Form 10-K

For a BHC, capital adequacy is based upon risk-weighted asset ratios calculated in accordance with quantitative measures established by the Federal Reserve. Under the Basel I guidelines, certain commitments and off-balance sheet transactions are assigned asset equivalent balances, and together with on-balance sheet assets, are divided into risk categories, each of which is assigned a risk weighting ranging from 0% (for example U.S. Treasury Bonds) to 100% (for example commercial loans).

### Item 7: Management's Discussion and Analysis

#### Table of Contents

78 CIT ANNUAL REPORT 2014

The reconciliation of balance sheet assets to risk-weighted assets is presented below:

#### **Risk-Weighted Assets** (dollars in millions)

	December 31,		
	2014	2013	2012
Balance sheet assets	\$ 47,880.0	\$ 47,139.0	\$ 44,012.0
Risk weighting adjustments to balance sheet assets	(8,647.8)	(10,328.1)	(9,960.4)
Off balance sheet items	16,248.7	13,760.3	14,565.3
Risk-weighted assets	\$ 55,480.9	\$ 50,571.2	\$ 48,616.9

The change in the 2014 balance sheet assets from 2013 reflect additions from DCC and Nacco acquisitions, along with new business volume, mostly offset by the sale of the student loan portfolio, European assets, and SBL. Risk weighting adjustments declined primarily due to the sale of the student loan assets as the U.S. government guaranteed portion was risk-weighted at 0%. The 2014 off balance sheet items primarily reflect commitments to purchase aircraft and railcars (\$10.7 billion related to aircraft and \$1.3 billion related to railcars), unused lines of credit (\$1.9 billion credit equivalent, largely related to Corporate Finance division) and deferred purchase agreements (\$1.9 billion related to Commercial Services division). The increase from 2013 is primarily due to higher aerospace purchase commitments. See *Note 21 — Commitments* in *Item 8 Financial Statements and Supplementary Data* for further detail on commitments.

#### **Tangible Book Value and Tangible Book Value per Share<sup>(1)</sup>**

Tangible book value represents common equity less goodwill and other intangible assets. A reconciliation of CIT's total common stockholders' equity to tangible book value, a non-GAAP measure, follows:

#### **Tangible Book Value and per Share Amounts** (dollars in millions, except per share amounts)

	December 31,		
	2014	2013	2012
Total common stockholders' equity	\$ 9,068.9	\$ 8,838.8	\$ 8,334.8
Less: Goodwill	(571.3)	(334.6)	(345.9)
Intangible assets	(25.7)	(20.3)	(31.9)
Tangible book value	\$ 8,471.9	\$ 8,483.9	\$ 7,957.0

December 31,

Book value per share	\$ 50.13	\$ 44.78	\$ 41.49
Tangible book value per share	\$ 46.83	\$ 42.98	\$ 39.61

<sup>(1)</sup> Tangible book value and tangible book value per share are non-GAAP measures.

Book value was up as the 2014 earnings exceeds the impact of share repurchases, the value of which reduces book value while held in treasury. Tangible book value ("TBV") was down slightly and reflected the reduction for the goodwill recorded with the Direct Capital and Nacco acquisitions. Book value per share increased reflecting the decline in outstanding shares and higher common equity. TBV per share increased, as the decline in outstanding shares offset the slight decrease in TBV.

## **Table of Contents**

CIT ANNUAL REPORT 2014 79

## **CIT BANK**

The Bank is a state-chartered commercial bank headquartered in Salt Lake City, Utah, that is subject to regulation and examination by the FDIC and the UDFI and is our principal bank subsidiary. The Bank originates and funds lending and leasing activity in the U.S. Asset growth during 2014, 2013 and 2012 reflected higher commercial lending and leasing volume, as well as the August 1, 2014 acquisition of Direct Capital. Deposits grew in support of the increased business and we expanded our product offerings. The Bank's capital and leverage ratios are included in the tables that follow and, while remaining well above required levels, are down from 2013 reflecting growth activities, including the impact of approximately \$180 million of goodwill and intangible assets associated with the Direct Capital acquisition.

As detailed in the following Condensed Balance Sheet table, total assets increased to \$21.1 billion, up nearly \$5 billion from last year and \$9 billion from December 31, 2012, primarily related to growth in commercial financing and leasing assets. Cash and deposits with banks was \$3.7 billion at December 31, 2014, up from \$2.5 billion at December 31, 2013, and \$3.4 billion at December 31, 2012.

Commercial loans totaled \$15.0 billion at December 31, 2014, up from \$12.0 billion at December 31, 2013 and \$8.1 billion at December 31, 2012. Commercial loans grew in 2014, reflecting solid new business activity, and supplemented by the addition of approximately \$540 million of loans (at the acquisition date) from the third quarter acquisition of Direct Capital. The Bank funded \$7.8 billion of new business volume during 2014, up 10% from 2013. Funded volumes represented nearly all of the new U.S. volumes for NACF and TIF. The Bank expanded its portfolio of operating lease equipment, which totaled \$2.0 billion at December 31, 2014 and was comprised primarily of railcars and some aircraft.

CIT Bank deposits were \$15.9 billion at December 31, 2014, up from \$12.5 billion at December 31, 2013 and \$9.6 billion at December 31, 2012. The weighted average interest rate was 1.63% at December 31, 2014, up from December 31, 2013, primarily due to an increase in term deposits with longer maturities and down from December 31, 2012.

Long-term borrowings at December 31, 2014 mainly consisted of debt related to secured borrowing transactions, the acquisition of Direct Capital and amounts borrowed from FHLBs.

The following presents condensed financial information for CIT Bank. The 2012 statements of operations include activity related to a portfolio of student loans. The BHC has reflected the student lending business as a discontinued operation.

## **Condensed Balance Sheets (dollars in millions)**

**At December 31,**



	2014	2013	2012
<b>ASSETS:</b>			
Cash and deposits with banks	\$ 3,684.9	\$ 2,528.6	\$ 3,351.3
Investment securities	285.2	234.6	123.3
Assets held for sale	22.8	104.5	37.7
Commercial loans	14,982.8	12,032.6	8,060.5
Allowance for loan losses	(269.5)	(212.9)	(134.6)
Operating lease equipment, net	2,026.3	1,248.9	621.6
Goodwill	167.8	-	-
Other assets	215.7	195.0	164.6
<b>Total Assets</b>	<b>\$ 21,116.0</b>	<b>\$ 16,131.3</b>	<b>\$ 12,224.4</b>
<b>LIABILITIES AND EQUITY:</b>			
Deposits	\$ 15,877.9	\$ 12,496.2	\$ 9,614.7
Long-term borrowings	1,862.5	854.6	49.6
Other borrowings	303.1	-	-
Other liabilities	356.1	183.9	122.7
<b>Total Liabilities</b>	<b>18,399.6</b>	<b>13,534.7</b>	<b>9,787.0</b>
<b>Total Equity</b>	<b>2,716.4</b>	<b>2,596.6</b>	<b>2,437.4</b>
<b>Total Liabilities and Equity</b>	<b>\$ 21,116.0</b>	<b>\$ 16,131.3</b>	<b>\$ 12,224.4</b>
<b>Capital Ratios:</b>			
Tier 1 Capital Ratio	13.0%	16.8%	21.5%
Total Capital Ratio	14.2%	18.1%	22.7%
Tier 1 Leverage ratio	12.2%	16.9%	20.2%
<b>Financing and Leasing Assets by Segment:</b>			
North American Commercial Finance	\$ 12,518.8	\$ 10,701.1	\$ 7,280.7
Transportation & International Finance	4,513.1	2,606.8	1,370.6
Non-Strategic Portfolios	-	78.1	68.5
<b>Total</b>	<b>\$ 17,031.9</b>	<b>\$ 13,386.0</b>	<b>\$ 8,719.8</b>

**Item 7: Management's Discussion and Analysis****Table of Contents**

80 CIT ANNUAL REPORT 2014

**Condensed Statements of Operations** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Interest income	\$ 712.1	\$ 550.5	\$ 381.0
Interest expense	(245.1)	(172.1)	(191.7)

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
Net interest revenue	467.0	378.4	189.3
Provision for credit losses	(99.1)	(93.1)	(93.9)
Net interest revenue, after credit provision	367.9	285.3	95.4
Rental income on operating leases	227.2	110.2	26.8
Other income	114.2	123.7	144.7
Total net revenue, net of interest expense and credit provision	709.3	519.2	266.9
Operating expenses	(412.3)	(296.9)	(176.6)
Depreciation on operating lease equipment	(92.3)	(44.4)	(9.8)
Income before provision for income taxes	204.7	177.9	80.5
Provision for income taxes	(81.6)	(69.4)	(39.4)
<b>Net income</b>	<b>\$ 123.1</b>	<b>\$ 108.5</b>	<b>\$ 41.1</b>
<b>New business volume</b>	<b>\$ 7,845.7</b>	<b>\$ 7,148.2</b>	<b>\$ 6,024.7</b>

The Bank's results benefited from growth in AEA. The provision for credit losses for 2014 reflects higher reserve build, including higher non-specific reserves, primarily due to asset growth including new business through Direct Capital, while credit metrics remain at or near cyclical lows. The Bank's 2013 provision for credit losses reflected portfolio growth, and 2012 included \$34 million as a change in estimate. For 2014, 2013 and 2012, net charge-offs as a percentage of average finance receivables were 0.31%, 0.15% and 0.14%, respectively.

Other income in 2014 was down from 2013, reflecting lower fee revenue. Operating expenses increased from prior years, reflecting the continued growth of both asset and deposits in the Bank, and the addition of 250 employees in the current year associated with the Direct Capital acquisition. As a % of AEA, operating expenses were 2.69% in 2014, unchanged from 2013 and up from 2.46% in 2012.

**Net Finance Revenue** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Interest income	\$ 712.1	\$ 550.5	\$ 381.0
Rental income on operating leases	227.2	110.2	26.8
Finance revenue	939.3	660.7	407.8
Interest expense	(245.1)	(172.1)	(191.7)
Depreciation on operating lease equipment	(92.3)	(44.4)	(9.8)
Maintenance and other operating lease expenses*	(8.2)	(2.9)	(1.3)
Net finance revenue	\$ 593.7	\$ 441.3	\$ 205.0
Average Earning Assets ("AEA")	\$ 15,344.0	\$ 11,048.2	\$ 7,181.6
<b>As a % of AEA:</b>			
Interest income	4.64%	4.98%	5.31%
Rental income on operating leases	1.48%	1.00%	0.37%
Finance revenue	6.12%	5.98%	5.68%
Interest expense	(1.60)%	(1.56)%	(2.67)%
Depreciation on operating lease equipment	(0.60)%	(0.40)%	(0.14)%
Maintenance and other operating lease expenses*	(0.05)%	(0.03)%	(0.02)%
Net finance revenue	3.87%	3.99%	2.85%

\* Amounts included in CIT Bank operating expenses.

NFR and NFM are key metrics used by management to measure the profitability of our lending and leasing assets. NFR includes interest and fee income on our loans and capital leases, interest and dividend income on cash and investments, rental revenue from our leased equipment, depreciation and maintenance and other operating lease expenses, as well as funding costs. Since our asset composition includes an increasing level of operating lease equipment (11% of AEA for the year ended December 31, 2014), NFM is a more appropriate metric for the Bank than net interest margin ("NIM") (a common metric used by other banks), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less depreciation and maintenance and other operating lease expenses) from operating leases.

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 81

NFR increased reflecting the growth in financing and leasing assets. NFM is down from 2013, reflecting some pressure on loan yields and slightly higher funding costs. During 2014, the Bank grew its operating lease portfolio by adding railcars and some aircraft, which contributed \$127 million to NFR in 2014, compared to \$63 million and \$16 million 2013 and 2012, respectively.

---

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to use judgment in making estimates and assumptions that affect reported amounts of assets and liabilities, reported amounts of income and expense and the disclosure of contingent assets and liabilities. The following estimates, which are based on relevant information available at the end of each period, include inherent risks and uncertainties related to judgments and assumptions made. We consider the estimates to be critical in applying our accounting policies, due to the existence of uncertainty at the time the estimate is made, the likelihood of changes in estimates from period to period and the potential impact on the financial statements.

Management believes that the judgments and estimates utilized in the following critical accounting estimates are reasonable. We do not believe that different assumptions are more likely than those utilized, although actual events may differ from such assumptions. Consequently, our estimates could prove inaccurate, and we may be exposed to charges to earnings that could be material.

*Allowance for Loan Losses* — The allowance for loan losses is reviewed for adequacy based on portfolio collateral values and credit quality indicators, including charge-off experience, levels of past due loans and non-performing assets, evaluation of portfolio diversification and concentration as well as economic conditions to determine the need for a qualitative adjustment. We review finance receivables periodically to determine the probability of loss, and record charge-offs after considering such factors as delinquencies, the financial condition of obligors, the value of underlying collateral, as well as third party credit enhancements such as guarantees and recourse to manufacturers. This information is reviewed on a quarterly basis with senior management, including the Chief Executive Officer, Chief Risk Officer, Chief Credit Officer, Chief Financial Officer and Controller, among others, as well as the Audit and Risk Management Committees, in order to set the reserve for credit losses.

As of December 31, 2014, the allowance was comprised of non-specific reserves of \$334 million and specific reserves of \$12 million. The allowance is sensitive to the risk ratings assigned to loans and leases in our portfolio. Assuming a one level PD downgrade across the 14 grade internal scale for all non-impaired loans and leases, the allowance would have increased by \$229 million to \$575 million at December 31, 2014. Assuming a one level LGD downgrade across the 11 grade internal scale for all non-impaired loans and leases, the allowance would have increased by \$118 million to \$464 million at December 31, 2014. As a percentage of finance receivables, the allowance would be 2.95% under the PD hypothetical stress scenario and 2.38% under the hypothetical LGD stress scenario, compared to the reported 1.78%.

These sensitivity analyses do not represent management's expectations of the deterioration in risk ratings, or the increases in allowance and loss rates, but are provided as hypothetical scenarios to assess the sensitivity of the allowance for loan losses to changes in key inputs. We believe the risk ratings utilized in the allowance calculations are appropriate and that the probability of the sensitivity scenarios above occurring within a short period of time is remote. The process of determining the level of the allowance for loan losses requires a high degree of judgment. Others given the same information could reach different reasonable conclusions.

## Edgar Filing: CIT GROUP INC - Form 10-K

See *Note 1 — Business and Summary of Significant Accounting Policies* for discussion on policies relating to the allowance for loan losses, and *Note 4 — Allowance for Loan Losses* for segment related data in *Item 8 Financial Statements and Supplementary Data* and *Credit Metrics* for further information on the allowance for credit losses.

*Loan Impairment* — Loan impairment is measured based upon the difference between the recorded investment in each loan and either the present value of the expected future cash flows discounted at each loan's effective interest rate (the loan's contractual interest rate adjusted for any deferred fees / costs or discount / premium at the date of origination/acquisition) or if a loan is collateral dependent, the collateral's fair value. When foreclosure or impairment is determined to be probable, the measurement will be based on the fair value of the collateral. The determination of impairment involves management's judgment and the use of market and third party estimates regarding collateral values. Valuations of impaired loans and corresponding impairment affect the level of the reserve for credit losses. See *Note 1 — Business and Summary of Significant Accounting Policies* for discussion on policies relating to the allowance for loan losses, and *Note 3 — Loans* for further discussion in *Item 8 Financial Statements and Supplementary Data*.

*Fair Value Determination* — At December 31, 2014, only selected assets (certain debt and equity securities, trading derivatives and derivative counterparty assets) and liabilities (trading derivatives and derivative counterparty liabilities) were measured at fair value. The fair value of assets related to net employee projected benefit obligations was determined largely via level 2.

See *Note 1 — Business and Summary of Significant Accounting Policies*, *Note 13 — Fair Value* and *Note 20 — Retirement, Postretirement and Other Benefit Plans* in *Item 8 Financial Statements and Supplementary Data* for further discussion.

*Lease Residual Values* — Operating lease equipment is carried at cost less accumulated depreciation and is depreciated to estimated residual value using the straight-line method over the lease term or estimated useful life of the asset. Direct financing leases are recorded at the aggregated future minimum lease payments plus estimated residual values less unearned finance

### Item 7: Management's Discussion and Analysis

---

#### Table of Contents

82 CIT ANNUAL REPORT 2014

income. We generally bear greater residual risk in operating lease transactions (versus finance lease transactions) as the duration of an operating lease is shorter relative to the equipment useful life than a finance lease. Management performs periodic reviews of residual values, with other than temporary impairment recognized in the current period as an increase to depreciation expense for operating lease residual impairment, or as an adjustment to yield for value adjustments on finance leases. Data regarding current equipment values, including appraisals, and historical residual realization experience are among the factors considered in evaluating estimated residual values. As of December 31, 2014, our direct financing lease residual balance was \$0.7 billion and our total operating lease equipment balance totaled \$14.9 billion.

*Liabilities for Uncertain Tax Positions* — The Company has open tax years in the U.S., Canada, and other international jurisdictions that are currently under examination, or may be subject to examination in the future, by the applicable taxing authorities. We evaluate the adequacy of our income tax reserves in accordance with accounting standards on uncertain tax positions, taking into account open tax return positions, tax assessments received, and tax law changes. The process of evaluating liabilities and tax reserves involves the use of estimates and a high degree of management judgment. The final determination of tax audits could affect our income tax expense.

*Realizability of Deferred Tax Assets* — The recognition of certain net deferred tax assets of the Company's reporting entities is dependent upon, but not limited to, the future profitability of the reporting entity, when the underlying temporary differences will reverse, and tax planning strategies. Further, Management's judgment regarding the use of estimates and projections is required in assessing our ability to realize the deferred tax assets relating to net operating loss carry forwards ("NOL's") as most of these assets are subject to limited carry-forward periods some of which begin to expire in 2015. In addition, the domestic NOLs are subject to annual use limitations under the Internal Revenue Code and certain state laws. Management utilizes historical and projected data

## Edgar Filing: CIT GROUP INC - Form 10-K

in evaluating positive and negative evidence regarding recognition of deferred tax assets. See *Note 1 — Business and Summary of Significant Accounting Policies* and *Note 19 — Income Taxes* in *Item 8 Financial Statements and Supplementary Data* for additional information regarding income taxes.

*Goodwill* — The consolidated goodwill balance totaled \$571 million at December 31, 2014, or approximately 1% of total assets. During 2014, CIT acquired 100% of the outstanding shares of Paris-based Nacco, and Direct Capital, resulting in the addition of \$77 million and \$168 million of goodwill, respectively. The remaining amount of goodwill represented the excess reorganization value over the fair value of tangible and identified intangible assets, net of liabilities, recorded in conjunction with FSA in 2009, and was allocated to TIF Transportation Finance, NSP and to the NACF Equipment Finance and Commercial Services reporting units.

Though the goodwill balance is not significant compared to total assets, management believes the judgmental nature in determining the values of the reporting units when measuring for potential impairment is significant enough to warrant additional discussion. CIT tested for impairment as of September 30, 2014, at which time CIT's share price was \$45.96 and tangible book value ("TBV") per share was \$45.87. This is as compared to December 31, 2009, CIT's emergence date, when the Company was valued at a discount of 30% to TBV per share of \$39.06. At September 30, 2014, CIT's share price was trading at 66% above the December 31, 2009 share price of \$27.61, while the TBV per share of \$45.87 was approximately 17% higher than the TBV at December 31, 2009.

In accordance with ASC 350, Intangibles — Goodwill and other, goodwill is assessed for impairment at least annually, or more frequently if events occur that would indicate a potential reduction in the fair value of the reporting unit below its carrying value. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. The ASC requires a two-step impairment test to be used to identify potential goodwill impairment and to measure the amount of goodwill impairment. Companies can also choose to perform qualitative assessments to conclude on whether it is more likely or not that a company's carrying amount including goodwill is greater than its fair value, commonly referred to as Step 0, before applying the two-step approach.

For 2014, we performed the Step 1 analysis utilizing estimated fair value based on peer price to earnings ("PE") and TBV multiples for the Transportation Finance, Commercial Services and Equipment Finance goodwill assessments. The Company performed the analysis using both a current PE and forward PE method. The current PE method was based on annualized pre-FSA income after taxes and actual peers' multiples as of September 30, 2014. The forward PE method was based on forecasted pre-FSA income after taxes and forward peers' multiples as of September 30, 2014. Pre-FSA income after taxes is utilized for valuations as this was considered more appropriate for determining the company's profitability without the impact of FSA adjustment from the Company's emergence from bankruptcy in 2009.

The TBV method is based on the reporting unit's estimated equity carrying amount and peer ratios using TBV as of September 30, 2014. For all analyses, CIT estimates each reporting unit's equity carrying amounts by applying the Company's economic capital ratios to the unit's risk weighted assets.

In addition, the Company applied a 42.2% control premium. The control premium is management's estimate of how much a market participant would be willing to pay over the market fair value for control of the business. Management concluded, based on performing the Step 1 analysis, that the fair values of the reporting units exceed their respective carrying values, including goodwill.

Estimating the fair value of reporting units involves the use of estimates and significant judgments that are based on a number of factors including actual operating results. If current conditions change from those expected, it is reasonably possible that the judgments and estimates described above could change in future periods.

See *Note 26 — Goodwill and Intangible Assets* in *Item 8 Financial Statements and Supplementary Data* for more detailed information.

---

### **Table of Contents**

CIT ANNUAL REPORT 2014 83

---

INTERNAL CONTROLS WORKING GROUP

## Edgar Filing: CIT GROUP INC - Form 10-K

The Internal Controls Working Group ("ICWG"), which reports to the Disclosure Committee, is responsible for monitoring and improving internal controls over external financial reporting. The ICWG is chaired by the Controller and is comprised of executives in Finance, Risk, Operations, Human Resources, Information Technology and Internal Audit. See *Item 9A. Controls and Procedures* for more information.

### NON-GAAP FINANCIAL MEASUREMENTS

The SEC adopted regulations that apply to any public disclosure or release of material information that includes a non-GAAP financial measure. The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosure about Market Risk contain certain non-GAAP financial measures. Due to the nature of our financing and leasing assets, which include a higher proportion of operating lease equipment than most BHCs, and the impact of FSA following our 2009 restructuring, certain financial measures commonly used by other BHCs are not as meaningful for our Company. Therefore, management uses certain non-GAAP financial measures to evaluate our performance. We intend our non-GAAP financial measures to provide additional information and insight regarding operating results and financial position of the business and in certain cases to provide financial information that is presented to rating agencies and other users of financial information. These measures are not in accordance with, or a substitute for, GAAP and may be different from or inconsistent with non-GAAP financial measures used by other companies. See footnotes below the tables for additional explanation of non-GAAP measurements.

#### Total Net Revenue<sup>(1)</sup> and Net Operating Lease Revenue<sup>(2)</sup> (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Total Net Revenue</b>			
Interest income	\$ 1,226.5	\$ 1,255.2	\$ 1,394.0
Rental income on operating leases	2,093.0	1,897.4	1,900.8
Finance revenue	3,319.5	3,152.6	3,294.8
Interest expense	(1,086.2)	(1,060.9)	(2,665.7)
Depreciation on operating lease equipment	(615.7)	(540.6)	(513.2)
Maintenance and other operating lease expenses	(196.8)	(163.1)	(139.4)
Net finance revenue	1,420.8	1,388.0	(23.5)
Other income	305.4	381.3	614.7
<b>Total net revenue</b>	<b>\$ 1,726.2</b>	<b>\$ 1,769.3</b>	<b>\$ 591.2</b>
<b>Net Operating Lease Revenue</b>			
Rental income on operating leases	\$ 2,093.0	\$ 1,897.4	\$ 1,900.8
Depreciation on operating lease equipment	(615.7)	(540.6)	(513.2)
Maintenance and other operating lease expenses	(196.8)	(163.1)	(139.4)
<b>Net operating lease revenue</b>	<b>\$ 1,280.5</b>	<b>\$ 1,193.7</b>	<b>\$ 1,248.2</b>

#### Adjusted NFR (\$) and NFM (%) (dollars in millions)

	Years Ended December 31,					
	2014		2013		2012	
NFR / NFM	\$ 1,420.8	4.25%	\$ 1,388.0	4.61%	\$ (23.5)	(0.09)%
Accelerated FSA net discount on debt extinguishments and repurchases	34.7	0.10%	34.6	0.12%	1,294.9	4.69%
Accelerated OID on debt extinguishments related to the GSI facility	(42.0)	(0.12)%	(5.2)	(0.02)%	(6.9)	(0.02)%

Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31,

Adjusted NFR and NFM	\$ 1,413.5	4.23%	\$ 1,417.4	4.71%	\$ 1,264.5	4.58%
----------------------	------------	-------	------------	-------	------------	-------

Item 7: Management's Discussion and Analysis

**Table of Contents**

84 CIT ANNUAL REPORT 2014

**Operating Expenses Excluding Restructuring Costs<sup>(3)</sup>** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Operating expenses	\$ (941.8)	\$ (970.2)	\$ (894.0)
Provision for severance and facilities exiting activities	31.4	36.9	22.7
Operating expenses excluding restructuring costs	\$ (910.4)	\$ (933.3)	\$ (871.3)

**Earning Assets<sup>(4)</sup>** (dollars in millions)

	December 31,		
	2014	2013	2012
Loans	\$ 19,495.0	\$ 18,629.2	\$ 17,153.1
Operating lease equipment, net	14,930.4	13,035.4	12,411.7
Assets held for sale	1,218.1	1,003.4	644.8
Credit balances of factoring clients	(1,622.1)	(1,336.1)	(1,256.5)
Total earning assets	\$ 34,021.4	\$ 31,331.9	\$ 28,953.1

**Tangible Book Value<sup>(6)</sup>** (dollars in millions)

	December 31,		
	2014	2013	2012
Total common stockholders' equity	\$ 9,068.9	\$ 8,838.8	\$ 8,334.8
Less: Goodwill	(571.3)	(334.6)	(345.9)
Intangible assets	(25.7)	(20.3)	(31.9)
Tangible book value	\$ 8,471.9	\$ 8,483.9	\$ 7,957.0

**Continuing Operations Total Assets<sup>(5)</sup>** (dollars in millions)

	December 31,		
	2014	2013	2012
Total assets	\$ 47,880.0	\$ 47,139.0	\$ 44,012.0
Assets of discontinued operation	—	(3,821.4)	(4,202.6)
Continuing operations total assets	\$ 47,880.0	\$ 43,317.6	\$ 39,809.4

- <sup>(1)</sup> Total net revenues is a non-GAAP measure that represents the combination of net finance revenue and other income and is an aggregation of all sources of revenue for the Company. Total net revenues is used by management to monitor business performance. Given our asset composition includes a high level of operating lease equipment, NFM is a more appropriate metric than net interest margin ("NIM") (a common metric used by other bank holding companies), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs of all our assets but excludes the net revenue (rental revenue less depreciation and maintenance and other operating lease expenses) from operating leases.
- <sup>(2)</sup> Net operating lease revenue is a non-GAAP measure that represents the combination of rental income on operating leases less depreciation on operating lease equipment and maintenance and other operating lease expenses. Net operating lease revenues is used by management to monitor portfolio performance.
- <sup>(3)</sup> Operating expenses excluding restructuring costs is a non-GAAP measure used by management to compare period over period expenses.
- <sup>(4)</sup> Earning assets is a non-GAAP measure and are utilized in certain revenue and earnings ratios. Earning assets are net of credit balances of factoring clients. This net amount represents the amounts we fund.
- <sup>(5)</sup> Continuing operations total assets is a non-GAAP measure, which management uses for analytical purposes to compare balance sheet assets on a consistent basis.
- <sup>(6)</sup> Tangible book value is a non-GAAP measure, which represents an adjusted common shareholders' equity balance that has been reduced by goodwill and intangible assets. Tangible book value is used to compute a per common share amount, which is used to evaluate our use of equity.

**Table of Contents**

CIT ANNUAL REPORT 2014 85

**FORWARD-LOOKING STATEMENTS**

Certain statements contained in this document are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. All statements contained herein that are not clearly historical in nature are forward-looking and the words "anticipate," "believe," "could," "expect," "estimate," "forecast," "intend," "plan," "potential," "project," "target" and similar expressions are generally intended to identify forward-looking statements. Any forward-looking statements contained herein, in press releases, written statements or other documents filed with the Securities and Exchange Commission or in communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls, concerning our operations, economic performance and financial condition are subject to known and unknown risks, uncertainties and contingencies. Forward-looking statements are included, for example, in the discussions about:

- our liquidity risk and capital management, including our capital plan, leverage, capital ratios, and credit ratings, our liquidity plan, and our plans and the potential transactions designed to enhance our liquidity and capital, and for a return of capital,



## Edgar Filing: CIT GROUP INC - Form 10-K

- our plans to change our funding mix and to access new sources of funding to broaden our use of deposit taking capabilities,
- our credit risk management and credit quality,
- our asset/liability risk management,
- our funding, borrowing costs and net finance revenue,
- our operational risks, including success of systems enhancements and expansion of risk management and control functions,
- our mix of portfolio asset classes, including growth initiatives, new business initiatives, new products, acquisitions and divestitures, new business and customer retention,
- legal risks, including related to the enforceability of our agreements and to changes in laws and regulations,
- our growth rates,
- our commitments to extend credit or purchase equipment, and
- how we may be affected by legal proceedings.

All forward-looking statements involve risks and uncertainties, many of which are beyond our control, which may cause actual results, performance or achievements to differ materially from anticipated results, performance or achievements. Also, forward-looking statements are based upon management's estimates of fair values and of future costs, using currently available information.

Therefore, actual results may differ materially from those expressed or implied in those statements. Factors, in addition to those disclosed in "*Risk Factors*", that could cause such differences include, but are not limited to:

- capital markets liquidity,
- risks of and/or actual economic slowdown, downturn or recession,
- industry cycles and trends,
- uncertainties associated with risk management, including credit, prepayment, asset/liability, interest rate and currency risks,
- adequacy of reserves for credit losses,
- risks inherent in changes in market interest rates and quality spreads,
- funding opportunities, deposit taking capabilities and borrowing costs,
- conditions and/or changes in funding markets and our access to such markets, including secured and unsecured term debt and the asset-backed securitization markets,
- risks of implementing new processes, procedures, and systems,
- risks associated with the value and recoverability of leased equipment and lease residual values,
-

## Edgar Filing: CIT GROUP INC - Form 10-K

risks of failing to achieve the projected revenue growth from new business initiatives or the projected expense reductions from efficiency improvements,

- application of fair value accounting in volatile markets,
- application of goodwill accounting in a recessionary economy,
- changes in laws or regulations governing our business and operations, or affecting our assets, including our operating lease equipment,
- changes in competitive factors,
- demographic trends,
- customer retention rates,
- future acquisitions and dispositions of businesses or asset portfolios, and
- regulatory changes and/or developments.

Any or all of our forward-looking statements here or in other publications may turn out to be wrong, and there are no guarantees regarding our performance. We do not assume any obligation to update any forward-looking statement for any reason.

### Item 7: Management's Discussion and Analysis

---

#### Table of Contents

86 CIT ANNUAL REPORT 2014

---

## Item 8. Financial Statements and Supplementary Data

---

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CIT Group Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of comprehensive income (loss), of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of CIT Group Inc. and its subsidiaries ("the Company") at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits (which were integrated audits in 2014 and 2013). We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether

## Edgar Filing: CIT GROUP INC - Form 10-K

the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
New York, New York  
February 20, 2015

### Table of Contents

CIT ANNUAL REPORT 2014 87

---

## CIT GROUP INC. AND SUBSIDIARIES

### **CONSOLIDATED BALANCE SHEETS** (dollars in millions – except per share data)

	December 31, 2014	December 31, 2013
<b>Assets</b>		
Cash and due from banks, including restricted balances of \$374.0 and \$178.1 at December 31, 2014 and 2013 <sup>(1)</sup> , respectively	\$ 878.5	\$ 680.1
Interest bearing deposits, including restricted balances of \$590.2 and \$785.5 at December 31, 2014 and 2013 <sup>(1)</sup> , respectively	6,241.2	5,364.6
Securities purchased under agreements to resell	650.0	–
Investment securities	1,550.3	2,630.7
Assets held for sale <sup>(1)</sup>	1,218.1	1,003.4
Loans (see Note 10 for amounts pledged)	19,495.0	18,629.2
Allowance for loan losses	(346.4)	(356.1)
Total loans, net of allowance for loan losses <sup>(1)</sup>	19,148.6	18,273.1
Operating lease equipment, net (see Note 10 for amounts pledged) <sup>(1)</sup>	14,930.4	13,035.4

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014	December 31, 2013
Unsecured counterparty receivable	559.2	301.6
Goodwill	571.3	334.6
Other assets, including \$168.0 and \$50.3 at December 31, 2014 and 2013, respectively, at fair value	2,132.4	1,694.1
Assets of discontinued operation <sup>(1)</sup>	–	3,821.4
<b>Total Assets</b>	<b>\$47,880.0</b>	<b>\$47,139.0</b>
<b>Liabilities</b>		
Deposits	\$15,849.8	\$12,526.5
Credit balances of factoring clients	1,622.1	1,336.1
Other liabilities, including \$62.3 and \$111.0 at December 31, 2014 and 2013, respectively, at fair value	2,888.8	2,664.3
Long-term borrowings, including \$3,053.3 and \$2,510.5 contractually due within twelve months at December 31, 2014 and December 31, 2013, respectively	18,455.8	18,484.5
Liabilities of discontinued operation <sup>(1)</sup>	–	3,277.6
<b>Total Liabilities</b>	<b>38,816.5</b>	<b>38,289.0</b>
<b>Stockholders' Equity</b>		
Common stock: \$0.01 par value, 600,000,000 authorized Issued: 203,127,291 and 202,182,395 at December 31, 2014 and 2013, respectively	2.0	2.0
Outstanding: 180,920,575 and 197,403,751 at December 31, 2014 and 2013, respectively		
Paid-in capital	8,603.6	8,555.4
Retained earnings	1,615.7	581.0
Accumulated other comprehensive loss	(133.9)	(73.6)
Treasury stock: 22,206,716 and 4,778,644 shares at December 31, 2014 and 2013 at cost, respectively	(1,018.5)	(226.0)
<b>Total Common Stockholders' Equity</b>	<b>9,068.9</b>	<b>8,838.8</b>
Noncontrolling minority interests	(5.4)	11.2
<b>Total Equity</b>	<b>9,063.5</b>	<b>8,850.0</b>
<b>Total Liabilities and Equity</b>	<b>\$47,880.0</b>	<b>\$47,139.0</b>

(1) The following table presents information on assets and liabilities related to Variable Interest Entities (VIEs) that are consolidated by the Company. The difference between VIE total assets and total liabilities represents the Company's interest in those entities, which were eliminated in consolidation. The assets of the consolidated VIEs will be used to settle the liabilities of those entities and, except for the Company's interest in the VIEs, are not available to the creditors of CIT or any affiliates of CIT.

<b>Assets</b>		
Cash and interest bearing deposits, restricted	\$ 537.3	\$ 516.4
Assets held for sale	–	96.7
Total loans, net of allowance for loan losses	3,619.2	3,109.7
Operating lease equipment, net	4,219.7	4,569.9
Other	10.0	11.9
Assets of discontinued operation	–	3,438.2
<b>Total Assets</b>	<b>\$ 8,386.2</b>	<b>\$11,742.8</b>
<b>Liabilities</b>		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	\$ 5,331.5	\$ 5,156.4
Liabilities of discontinued operation	–	3,265.6
<b>Total Liabilities</b>	<b>\$ 5,331.5</b>	<b>\$ 8,422.0</b>

Edgar Filing: CIT GROUP INC - Form 10-K

The accompanying notes are an integral part of these consolidated financial statements.

Item 8: Financial Statements and Supplementary Data

Table of Contents

88 CIT ANNUAL REPORT 2014

CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS** (dollars in millions – except per share data)

	Years Ended December 31,		
	2014	2013	2012
<i>Interest income</i>			
Interest and fees on loans	\$ 1,191.0	\$ 1,226.3	\$ 1,361.8
Interest and dividends on interest bearing deposits and investments	35.5	28.9	32.2
Interest income	1,226.5	1,255.2	1,394.0
<i>Interest expense</i>			
Interest on long-term borrowings	(855.2)	(881.1)	(2,513.2)
Interest on deposits	(231.0)	(179.8)	(152.5)
Interest expense	(1,086.2)	(1,060.9)	(2,665.7)
Net interest revenue	140.3	194.3	(1,271.7)
Provision for credit losses	(100.1)	(64.9)	(51.4)
Net interest revenue, after credit provision	40.2	129.4	(1,323.1)
<i>Non-interest income</i>			
Rental income on operating leases	2,093.0	1,897.4	1,900.8
Other income	305.4	381.3	614.7
Total non-interest income	2,398.4	2,278.7	2,515.5
<b>Total revenue, net of interest expense and credit provision</b>	<b>2,438.6</b>	<b>2,408.1</b>	<b>1,192.4</b>
<i>Other expenses</i>			
Depreciation on operating lease equipment	(615.7)	(540.6)	(513.2)
Maintenance and other operating lease expenses	(196.8)	(163.1)	(139.4)
Operating expenses	(941.8)	(970.2)	(894.0)
Loss on debt extinguishments	(3.5)	–	(61.2)
Total other expenses	(1,757.8)	(1,673.9)	(1,607.8)
Income (loss) from continuing operations before benefit (provision) for income taxes	680.8	734.2	(415.4)
Benefit (provision) for income taxes	397.9	(83.9)	(116.7)
Income (loss) from continuing operations before attribution of noncontrolling interests	1,078.7	650.3	(532.1)
Net income attributable to noncontrolling interests, after tax	(1.2)	(5.9)	(3.7)
<b>Income (loss) from continuing operations</b>	<b>1,077.5</b>	<b>644.4</b>	<b>(535.8)</b>
Discontinued operation			

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
Income (loss) from discontinued operation, net of taxes	(230.3)	31.3	(56.5)
Gain on sale of discontinued operation, net of taxes	282.8	-	-
Income (loss) from discontinued operation, net of taxes	52.5	31.3	(56.5)
<b>Net income (loss)</b>	<b>\$ 1,130.0</b>	<b>\$ 675.7</b>	<b>\$ (592.3)</b>
<b>Basic income (loss) per common share</b>			
Income (loss) from continuing operations	\$ 5.71	\$ 3.21	\$ (2.67)
Income (loss) from discontinued operation, net of taxes	0.28	0.16	(0.28)
Basic income (loss) per common share	\$ 5.99	\$ 3.37	\$ (2.95)
<b>Diluted income (loss) per common share</b>			
Income (loss) from continuing operations	\$ 5.69	\$ 3.19	\$ (2.67)
Income (loss) from discontinued operation, net of taxes	0.27	0.16	(0.28)
Diluted income (loss) per common share	\$ 5.96	\$ 3.35	\$ (2.95)
Average number of common shares – basic (thousands)	188,491	200,503	200,887
Average number of common shares – diluted (thousands)	189,463	201,695	200,887
Dividends declared per common share	\$ 0.50	\$ 0.10	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

CIT ANNUAL REPORT 2014 89

CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Income (loss) from continuing operations, before attribution of noncontrolling interests</b>	<b>\$ 1,078.7</b>	<b>\$ 650.3</b>	<b>\$(532.1)</b>
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	(26.0)	(12.8)	(8.4)
Changes in fair values of derivatives qualifying as cash flow hedges	0.2	(0.1)	0.6
Net unrealized gains (losses) on available for sale securities	(0.1)	(2.0)	1.0
Changes in benefit plans net gain (loss) and prior service (cost)/credit	(34.4)	19.0	11.7
Other comprehensive income (loss), net of tax	(60.3)	4.1	4.9
<b>Comprehensive income (loss) before noncontrolling interests and discontinued operation</b>	<b>1,018.4</b>	<b>654.4</b>	<b>(527.2)</b>
Comprehensive loss attributable to noncontrolling interests	(1.2)	(5.9)	(3.7)
Income (loss) from discontinued operation, net of taxes	52.5	31.3	(56.5)
<b>Comprehensive income (loss)</b>	<b>\$ 1,069.7</b>	<b>\$ 679.8</b>	<b>\$(587.4)</b>

The accompanying notes are an integral part of these consolidated financial statements.

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

90 CIT ANNUAL REPORT 2014

CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY** (dollars in millions)

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Noncontrolling Minority Interests</u>	<u>Total Equity</u>
<b>December 31, 2011</b>	\$2.0	\$8,459.3	\$ 517.7	\$ (82.6)	\$ (12.8)	\$ 2.5	\$8,886.1
Net income (loss)			(592.3)			3.7	(588.6)
Other comprehensive income, net of tax				4.9			4.9
Amortization of restricted stock, stock option, and performance share expenses		41.6			(3.9)		37.7
Employee stock purchase plan		1.1					1.1
Distribution of earnings and capital		(0.2 )				(1.5 )	(1.7 )
<b>December 31, 2012</b>	\$2.0	\$8,501.8	\$ (74.6)	\$ (77.7)	\$ (16.7)	\$ 4.7	\$8,339.5
Net income			675.7			5.9	681.6
Other comprehensive income, net of tax				4.1			4.1
Dividends paid			(20.1)				(20.1)
Amortization of restricted stock, stock option and performance shares expenses		52.5			(15.9)		36.6
Repurchase of common stock					(193.4)		(193.4)
Employee stock purchase plan		1.1					1.1
Distribution of earnings and capital						0.6	0.6
<b>December 31, 2013</b>	\$ 2.0	\$ 8,555.4	\$ 581.0	\$ (73.6 )	\$ (226.0 )	\$ 11.2	\$ 8,850.0
Net income			1,130.0			1.2	1,131.2
				(60.3)			(60.3)

	<u>Common Stock</u>	<u>Paid-in Capital</u>	<u>Retained Earnings (Accumulated Deficit)</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Noncontrolling Minority Interests</u>	<u>Total Equity</u>
Other comprehensive loss, net of tax							
Dividends paid			(95.3)				(95.3)
Amortization of restricted stock, stock option and performance shares expenses		47.1			(17.0)		30.1
Repurchase of common stock					(775.5)		(775.5)
Employee stock purchase plan		1.1					1.1
Distribution of earnings and capital						(17.8)	(17.8)
<b>December 31, 2014</b>	\$2.0	\$8,603.6	\$1,615.7	\$(133.9)	\$(1,018.5)	\$ (5.4)	\$9,063.5

The accompanying notes are an integral part of these consolidated financial statements.

## Table of Contents

CIT ANNUAL REPORT 2014 91

## CIT GROUP INC. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS (dollars in millions)

	<b>Years Ended December 31</b>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Cash Flows From Operations</b>			
Net income (loss)	\$ 1,130.0	\$ 675.7	\$ (592.3)
Adjustments to reconcile net income (loss) to net cash flows from operations:			
Provision for credit losses	100.1	64.9	51.6
Net depreciation, amortization and accretion	882.0	705.5	1,985.9
Net gains on equipment, receivable and investment sales	(348.6)	(187.2)	(342.8)
Loss on debt extinguishments	—	—	21.1
Provision for deferred income taxes	(426.7)	59.1	32.7
(Increase) decrease in finance receivables held for sale	(165.1)	404.8	(54.9)
Increase in other assets	(34.9)	(251.1)	(106.2)
Increase (decrease) in accrued liabilities and payables	141.5	(18.1)	(86.6)
Net cash flows provided by operations	1,278.3	1,453.6	908.5



Edgar Filing: CIT GROUP INC - Form 10-K

Years Ended December 31

<b>Cash Flows From Investing Activities</b>			
Loans originated and purchased	(15,534.3)	(18,243.1)	(18,983.6)
Principal collections of loans	13,681.8	15,310.4	16,673.7
Purchases of investment securities	(9,824.4)	(16,538.8)	(16,322.0)
Proceeds from maturities of investment securities	10,297.8	15,084.5	16,580.0
Proceeds from asset and receivable sales	3,817.2	1,875.4	4,499.3
Purchases of assets to be leased and other equipment	(3,101.1)	(2,071.8)	(1,776.6)
Net (increase) decrease in short-term factoring receivables	(8.0)	105.2	134.1
Acquisition, net of cash received	(448.6)	—	—
Net change in restricted cash	93.8	127.0	(314.0)
Net cash flows (used in) provided by investing activities	(1,025.8)	(4,351.2)	490.9
<b>Cash Flows From Financing Activities</b>			
Proceeds from the issuance of term debt	4,180.1	2,107.6	13,523.9
Repayments of term debt	(5,874.7)	(2,445.8)	(19,542.2)
Net increase in deposits	3,323.9	2,846.1	3,499.8
Collection of security deposits and maintenance funds	551.8	543.9	563.4
Use of security deposits and maintenance funds	(488.4)	(495.8)	(373.8)
Repurchase of common stock	(775.5)	(193.4)	—
Dividends paid	(95.3)	(20.1)	—
Net cash flows provided by (used in) financing activities	821.9	2,342.5	(2,328.9)
Increase (decrease) in unrestricted cash and cash equivalents	1,074.4	(555.1)	(929.5)
Unrestricted cash and cash equivalents, beginning of period	5,081.1	5,636.2	6,565.7
<b>Unrestricted cash and cash equivalents, end of period</b>	<b>\$ 6,155.5</b>	<b>\$ 5,081.1</b>	<b>\$ 5,636.2</b>
<b>Supplementary Cash Flow Disclosure</b>			
Interest paid	\$ (1,049.5)	\$ (997.8)	\$ (1,240.0)
Federal, foreign, state and local income taxes (paid) collected, net	\$ (21.6)	\$ (68.0)	\$ 18.4
<b>Supplementary Non Cash Flow Disclosure</b>			
Transfer of assets from held for investment to held for sale	\$ 2,551.3	\$ 5,141.9	\$ 1,421.2
Transfer of assets from held for sale to held for investment	\$ 64.9	\$ 18.0	\$ 11.0

The accompanying notes are an integral part of these consolidated financial statements.

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**

92 CIT ANNUAL REPORT 2014

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 1 — BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

## Edgar Filing: CIT GROUP INC - Form 10-K

CIT Group Inc., together with its subsidiaries (collectively “CIT” or the “Company”), has provided financial solutions to its clients since its formation in 1908. The Company provides financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. CIT became a bank holding company (“BHC”) in December 2008 and a financial holding company (“FHC”) in July 2013. CIT is regulated by the Board of Governors of the Federal Reserve System (“FRB”) and the Federal Reserve Bank of New York (“FRBNY”) under the U.S. Bank Holding Company Act of 1956. CIT Bank (the “Bank”), a wholly-owned subsidiary, is a Utah state chartered bank located in Salt Lake City, and is regulated by the Federal Deposit Insurance Corporation (“FDIC”) and the Utah Department of Financial Institutions (“UDFI”). The Company operates primarily in North America, with locations in Europe and Asia.

### **BASIS OF PRESENTATION**

#### **Basis of Financial Information**

The accounting and financial reporting policies of CIT Group Inc. conform to generally accepted accounting principles (“GAAP”) in the United States and the preparation of the consolidated financial statements is in conformity with GAAP which requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions. Some of the more significant estimates include: allowance for loan losses, loan impairment, fair value determination, lease residual values, liabilities for uncertain tax positions, realizability of deferred tax assets, and goodwill assets. Additionally where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

#### **Principles 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.

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.

#### **Discontinued Operation**

On April 25, 2014, the Company completed the sale of its student lending business. As a result, the student lending business is reported as a discontinued operation for all periods. The business had been included in the Non-Strategic Portfolios segment and consisted of a portfolio of U.S. Government-guaranteed student loans. The portfolio was in run-off and had been transferred to assets held for sale (“AHFS”) at the end of 2013. See *Note 2 — Acquisition and Disposition Activities*.

### **SIGNIFICANT ACCOUNTING POLICIES**

#### **Financing and Leasing Assets**

CIT extends credit to customers through a variety of financing arrangements including term loans, revolving credit facilities, capital leases (direct finance leases) and operating leases. The amounts outstanding on term loans, revolving credit facilities and capital leases are referred to as finance receivables. In certain instances, we use the term “Loans” synonymously, as presented on the balance sheet. These finance receivables, when combined with *Assets held for sale* and *Operating lease equipment, net* are referred to as financing and leasing assets.

It is CIT’s expectation that the majority of the loans and leases originated will be held for the foreseeable future or until maturity. In certain situations, for example to manage concentrations and/or credit risk or where returns no longer meet specified targets, some or all of certain exposures are sold. Loans for which the Company has the intent and ability to hold for the foreseeable future or until maturity are classified as held for investment (“HFI”). If the Company no longer has the intent or ability to hold loans for the foreseeable future, then the loans are transferred to AHFS. Loans originated with the intent to resell are classified as AHFS.

Loans originated and classified as HFI are recorded at amortized cost. Loan origination fees and certain direct origination costs are deferred and recognized as adjustments to interest income over the lives of the related loans. Unearned income on leases and discounts and premiums on loans purchased are amortized to interest income using the effective interest method. Direct financing leases originated and classified as HFI are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Management performs periodic reviews of estimated residual values, with other than temporary impairment (“OTTI”) recognized in current period earnings.

If it is determined that a loan should be transferred from HFI to AHFS, then the balance is transferred at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off when the carrying amount exceeds fair value and the difference relates to credit quality, otherwise the write-down is recorded as a reduction to Other Income, and any allowance for loan loss is reversed. Once classified as AHFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance and is reflected as a reduction to Other Income.

If it is determined that a loan should be transferred from AHFS to HFI, the loan is transferred at the lower of cost or fair value on the transfer date, which coincides with the date of change in management's intent. The difference between the carrying value of the loan and the fair value, if lower, is reflected as a loan discount at the transfer date, which reduces its carrying value. Subsequent to the transfer, the discount is accreted into earnings as an increase to interest income over the life of the loan using the effective interest method.

Operating lease equipment is carried at cost less accumulated depreciation. Operating lease equipment is depreciated to its estimated residual value using the straight-line method over the lease term or estimated useful life of the asset. Where management's intention is to sell the equipment received at the end of a

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 93

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

lease, these are marked to the lower of cost or fair value and classified as AHFS. Depreciation is stopped on these assets and any further marks to lower of cost or fair value are recorded in Other Income. Equipment received at the end of the lease is marked to the lower of cost or fair value with the adjustment recorded in Other Income.

In the operating lease portfolio, maintenance costs incurred that exceed maintenance funds collected for commercial aircraft are expensed if they do not provide a future economic benefit and do not extend the useful life of the aircraft. Such costs may include costs of routine aircraft operation and costs of maintenance and spare parts incurred in connection with re-leasing an aircraft and during the transition between leases. For such maintenance costs that are not capitalized, a charge is recorded in expense at the time the costs are incurred. Income recognition related to maintenance funds collected and not used during the life of the lease is deferred to the extent management estimates costs will be incurred by subsequent lessees performing scheduled maintenance. Upon the disposition of an aircraft, any excess maintenance funds that exist are recognized in Other Income.

#### **Revenue Recognition**

Interest income on loans (both HFI and AHFS) is recognized using the effective interest method or on a basis approximating a level rate of return over the life of the asset. Interest income includes a component of accretion of the fair value discount on loans and lease receivables recorded in connection with Fresh Start Accounting ("FSA"), which is accreted using the effective interest method as a yield adjustment over the remaining term of the loan and recorded in interest income. See *Fresh Start Accounting* further in this section.

Rental revenue on operating leases is recognized on a straight line basis over the lease term and is included in Non-interest Income. Intangible assets were recorded during FSA and in acquisitions completed by the Company to adjust the carrying value of above or below market operating lease contracts to their fair value. The FSA related adjustments (net) are amortized into rental income on a straight line basis over the remaining term of the respective lease.

The recognition of interest income (including accretion) on 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. 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 certain 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 upon collection of six consecutive scheduled payments.

The Company periodically modifies the terms of finance receivables in response to borrowers' financial difficulties. These modifications may include interest rate changes, principal forgiveness or payment deferrals. Finance receivables that are modified, where a concession has been made to the borrower, are accounted for as Troubled Debt Restructurings ("TDRs"). TDRs are generally placed on non-accrual upon their restructuring and remain on non-accrual until, in the opinion of management, collection of remaining principal and interest is reasonably assured, and upon collection of six consecutive scheduled payments.

#### **Allowance for Loan Losses on Finance Receivables**

The allowance for loan losses is intended to provide for credit losses inherent in the loan and lease receivables portfolio and is periodically reviewed for adequacy considering 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.

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, (2) non-specific allowances for estimated losses inherent in the portfolio based upon the expected loss over the loss emergence period projected loss levels 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.

With respect to assets transferred from HFI to AHFS, a charge off is recognized to the extent carrying value exceeds the expected cash flows 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 associated with the Company's factoring business. A reserve for unfunded loan commitments is maintained to absorb estimated probable losses related to these facilities. The adequacy of the reserve is determined based on periodic evaluations of the unfunded credit facilities, including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers, and the terms and expiration dates of the unfunded credit facilities. The reserve for unfunded loan commitments is recorded as a liability on the Consolidated Balance Sheet. Net adjustments to the reserve for unfunded loan commitments are included in the provision for credit losses.

Finance receivables are divided into the following portfolio segments, which correspond to the Company's business segments; Transportation & International Finance ("TIF"), North American Commercial Finance ("NACF") and Non-Strategic Portfolios ("NSP"). Within each portfolio segment, credit risk is assessed and monitored in the following classes of loans; within TIF, Transportation Finance and International Finance, and within NACF, Corporate Finance, Equipment Finance, Real Estate Finance, and Commercial Services. The allowance is estimated based upon the finance receivables in the respective class.

#### **Item 8: Financial Statements and Supplementary Data**

---

#### **Table of Contents**

94 CIT ANNUAL REPORT 2014

---

#### **CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The allowance policies described above related 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. Given the nature of the Company's

business, the specific allowance is largely related to the NACF and TIF portfolio segments. The non-specific allowance, which considers the Company's internal system of probability of default and loss severity ratings, among other factors, is applicable to all the portfolio segments.

### **Impairment of Finance Receivables**

Impaired finance receivables of \$500 thousand or greater that are placed on non-accrual status, largely in the Corporate Finance, Real Estate Finance, Commercial Services, Transportation Finance and International Finance loan classes, are subject to periodic individual review by the Company's problem loan management ("PLM") function. The Company excludes small-ticket loan and lease receivables, largely in Equipment Finance and NSP, that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables in Commercial Services, from its impaired finance receivables disclosures as charge-offs are typically determined and recorded for such loans beginning at 90-150 days of contractual delinquency.

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. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract's effective interest rate.

### **Charge-off of Finance Receivables**

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 Corporate Finance, Equipment Finance, Real Estate Finance, Commercial Services and Transportation Finance loan classes. Charge-offs on certain small ticket finance receivables are recorded beginning at 90 to 150 days of contractual delinquency. Charge-offs on loans originated are reflected in the provision for credit losses. Charge-offs on loans with a purchase price discount or FSA discount are first allocated to the respective loan's discount, then to the extent a charge-off amount exceeds such discount, to provision for credit losses. Collections on accounts previously charged off in the post-emergence period are recorded as recoveries in the provision for credit losses. Collections on accounts previously charged off in the pre-emergence period 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.

### **Delinquent Finance Receivables**

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.

### **Impairment of Long-Lived Assets**

A review for impairment of long-lived assets, such as operating lease equipment, is performed at least annually or when events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable. Impairment of assets is determined by comparing the carrying amount to future undiscounted net cash flows expected to be generated. If an asset is impaired, the impairment is the amount by which the carrying amount exceeds the fair value of the asset. Fair value is based upon discounted cash flow analysis and available market data. Current lease rentals, as well as relevant and available market information (including third party sales for similar equipment, and published appraisal data), are considered both in determining undiscounted future cash flows when testing for the existence of impairment and in determining estimated fair value in measuring impairment. Depreciation expense is adjusted when projected fair value at the end of the lease term is below the projected book value at the end of the lease term. Assets to be disposed of are included in assets held for sale in the Consolidated Balance Sheet and reported at the lower of the carrying amount or fair value less disposal costs.

### **Securities Purchased Under Resale Agreements**

Securities purchased under agreements to resell (reverse repos) generally do not constitute a sale or purchase of the underlying securities for accounting purposes and, therefore are treated as collateralized financing transactions. These agreements are recorded at the amounts at which the securities were acquired. See *Note 13 — Fair Value* for discussion of fair value. The Company's reverse repos are short-term securities secured by the underlying collateral, which, along with the cash investment, are maintained by a third-party.

CIT's policy is to obtain collateral with a market value in excess of the principal amount under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, the collateral is valued on a daily basis. Collateral typically consists of government-agency securities, corporate bonds and mortgage-backed securities.

These securities financing agreements give rise to minimal credit risk as a result of the collateral provisions, therefore no allowance is considered necessary. In the event of counterparty default, the financing agreement provides the Company with the right to liquidate the collateral held. Interest earned on these financing agreements is included in *Interest and dividends on interest bearing deposits and investments* in the statement of operations.

## Investments

Debt and 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 OTTI are immediately recorded in earnings. Realized gains and losses on sales are included in *Other income* on a specific

---

## Table of Contents

CIT ANNUAL REPORT 2014 95

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

identification basis, and interest and dividend income on AFS securities is included in *Interest and dividends on interest bearing deposits and investments*.

Debt securities classified as "held-to-maturity" ("HTM") represent securities that the Company has both the ability and the intent to hold until maturity, and are carried at amortized cost. Interest on such securities is included in *Interest and dividends on interest bearing deposits and investments*.

Debt and marketable equity security purchases and sales are recorded as of the trade date.

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.

## Evaluating Investments for OTTI

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

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 Operations, 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 the Consolidated Statement of Operations in the period determined.

## Edgar Filing: CIT GROUP INC - Form 10-K

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.

For equity securities, management considers the various factors described above. If it is determined that the security's decline in fair value (for equity securities classified as AFS) or cost (for equity securities carried at cost) is other than temporary, the security's fair value or cost is written down, and the charge recognized in Other income.

### **Goodwill and Other Identified Intangibles**

Goodwill balance as of December 31, 2013 represented the excess of reorganization equity value over the fair value of tangible and identifiable intangible assets, net of liabilities. Effective January 1, 2014, this goodwill was reallocated to the Company's new TIF and NACF reporting units based on the respective reporting unit's estimated fair value of equity. The Company evaluated goodwill for impairment immediately before and after the reallocation of goodwill to the reporting units and identified no impairment.

The Company's goodwill also represents the excess of the purchase prices paid for acquired businesses over the respective net asset values acquired. The goodwill was assigned to reporting units at the date the goodwill was initially recorded. Once the goodwill was assigned to the segment (or "reporting unit") level, it no longer retained its association with a particular transaction, and all of the activities within the reporting unit, whether acquired or internally generated, are available to evaluate the value of goodwill.

Goodwill is not amortized but it is subject to impairment testing at the reporting unit on an annual basis, or more often if events or circumstances indicate there may be impairment. The Company follows guidance in ASU 2011-08, *Intangibles — Goodwill and Other (Topic 350), Testing Goodwill for Impairment* that includes the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing the two-step impairment test as required in ASC 350, *Intangibles — Goodwill and Other*. Examples of qualitative factors to assess include macroeconomic conditions, industry and market considerations, market changes affecting the Company's products and services, overall financial performance, and company specific events affecting operations.

---

**Table of Contents**96 CIT ANNUAL REPORT 2014

---

**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

If the Company does not perform the qualitative assessment or upon performing the qualitative assessment concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, CIT would be required to perform the first step of the two-step goodwill impairment test for that reporting unit. The first step involves comparing the fair value of the reporting unit with its carrying value, including goodwill as measured by allocated equity. If the fair value of the reporting unit exceeds its carrying value, goodwill in that unit is not considered impaired. However, if the carrying value exceeds its fair value, step two must be performed to assess potential impairment. In step two, the implied fair value of the reporting unit's goodwill (the reporting unit's fair value less its carrying amount, excluding goodwill) is compared with the carrying amount of the goodwill. An impairment loss would be recorded in the amount that the carrying amount of goodwill exceeds its implied fair value. Reporting unit fair values are primarily estimated using discounted cash flow models. See *Note 26 — Goodwill and Intangible Assets* for further details.

Intangible assets were recorded relating to the valuation of existing customer relationships and trade names related to the 2014 acquisitions and for net above and below market operating lease contracts recorded in FSA or in acquisitions. These intangible assets are amortized on a straight line basis. Amortization expense for the intangible assets, except for the net above and below market operating lease contracts, is recorded in Operating expenses. The intangible assets related to net above and below market operating lease contracts amortization results in lower rental income (a component of Non-interest Income) over the remaining term of the lease agreements. Management evaluates definite lived intangible assets for impairment when events and circumstances indicate that the carrying amounts of those assets may not be recoverable.

**Other Assets**

Assets received in satisfaction of loans are initially recorded at fair value and then assessed at the lower of carrying value or estimated fair value less selling costs, with write-downs of the pre-existing receivable reflected in the provision for credit losses. Additional impairment charges, if any, would be recorded in *Other Income*.

**Derivative Financial Instruments**

The Company manages economic risk and exposure to interest rate and foreign currency risk through derivative transactions in over-the-counter markets with other financial institutions. The Company does not enter into derivative financial instruments for speculative purposes.

Derivatives utilized by the Company may include swaps, forward settlement contracts, and options contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward settlement contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date, and rate or price. An option contract is an agreement that gives the buyer the right, but not the obligation, to buy or sell an underlying asset from or to another party at a predetermined price or rate over a specific period of time.

The Company documents at inception all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategies for undertaking various hedges. Upon executing a derivative contract, the Company designates the derivative as either a qualifying hedge or non-qualifying hedge. The designation may change based upon management's reassessment of circumstances.

The Company utilizes cross-currency swaps and foreign currency forward contracts to hedge net investments in foreign operations. These transactions are classified as foreign currency net investment hedges with resulting gains and losses reflected in AOCI. For hedges of foreign currency net investment positions, the "forward" method is applied whereby effectiveness is assessed and measured based on the amounts and currencies of the individual hedged net investments versus the notional amounts and underlying currencies of the derivative contract. For those hedging relationships where the critical terms of the underlying net investment and the derivative are identical, and the credit-worthiness of the counterparty to the hedging instrument remains sound,



there is an expectation of no hedge ineffectiveness so long as those conditions continue to be met.

The Company also enters into foreign currency forward contracts to manage the foreign currency risk associated with its non US subsidiary's funding activities and designates these as foreign currency cash flow hedges for which certain components are reflected in AOCI and others recognized in noninterest income when the underlying transaction impacts earnings.

In addition, the company uses foreign currency forward contracts, interest rate swaps, cross currency interest rate swaps, and options to hedge interest rate and foreign currency risks arising from its asset and liability mix. These are treated as economic hedges.

Derivative instruments that qualify for hedge accounting are presented in the balance sheet at their fair values in other assets or other liabilities. Derivatives that do not qualify for hedge accounting are presented in the balance sheet in other assets or other liabilities, with their resulting gains or losses recognized in Other Income. Fair value is based on dealer quotes, pricing models, discounted cash flow methodologies, or similar techniques for which the determination of fair value may require significant management judgment or estimation. The fair value of the derivative is reported on a gross-by-counterparty basis. Valuations of derivative assets and liabilities reflect the value of the instrument including the Company's and counterparty's credit risk.

CIT is exposed to credit risk to the extent that the counterparty fails to perform under the terms of a derivative. The Company manages this credit risk by requiring that all derivative transactions 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.

## **Fair Value**

CIT measures the fair value of its financial assets and liabilities in accordance with ASC 820 *Fair Value Measurements*, which defines fair value, establishes a consistent framework for measuring fair value

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 97

---

## **CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

and requires disclosures about fair value measurements. The Company categorizes its financial instruments, based on the priority of inputs to the valuation techniques, according to the following three-tier fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain other securities that are highly liquid and are actively traded in over-the-counter markets;
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes derivative contracts and certain loans held-for-sale;
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using valuation models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes highly structured or long-term derivative contracts and structured finance securities where independent pricing information cannot be obtained for a significant

portion of the underlying assets or liabilities.

## Income Taxes

Deferred tax assets and liabilities are recognized for the expected future taxation of events that have been reflected in the Consolidated Financial Statements. Deferred tax assets and liabilities are determined based on the differences between the book values and the tax basis of assets and liabilities, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to reduce the reported amount of any net deferred tax assets of a reporting entity if, based upon the relevant facts and circumstances, it is more likely than not that some or all of the deferred tax assets will not be realized. Additionally, in certain situations, it may be appropriate to write-off the deferred tax asset against the valuation allowance. This reduces the valuation allowance and the amount of the respective gross deferred tax asset that is disclosed. A write-off might be appropriate if there is only a remote likelihood that the reporting entity will ever utilize its respective deferred tax assets, thereby eliminating the need to disclose the gross amounts.

The Company is subject to the income tax laws of the United States, its states and municipalities and those of the foreign jurisdictions in which the Company operates. These tax laws are complex, and the manner in which they apply to the taxpayer's facts is sometimes open to interpretation. Given these inherent complexities, the Company must make judgments in assessing the likelihood that a beneficial income tax position will be sustained upon examination by the taxing authorities based on the technical merits of the tax position. An income tax benefit is recognized only when, based on management's judgment regarding the application of income tax laws, it is more likely than not that the tax position will be sustained upon examination. A position that meets this standard is measured at the largest amount of tax benefit that will more likely than not be realized on settlement. The amount of benefit recognized for financial reporting purposes is based on management's best judgment of the most likely outcome resulting from examination given the facts, circumstances and information available at the reporting date. The Company adjusts the level of unrecognized tax benefits when there is new information available to assess the likelihood of the outcome. Liabilities for uncertain income tax positions are included in current taxes payable, which is reflected in accrued liabilities and payables. Accrued interest and penalties for unrecognized tax positions are recorded in income tax expense.

## Other Comprehensive Income/Loss

*Other Comprehensive Income/Loss* includes unrealized gains and losses, unless other than temporarily impaired, on AFS investments, foreign currency translation adjustments for both net investment in foreign operations and related derivatives designated as hedges of such investments, changes in fair values of derivative instruments designated as hedges of future cash flows and certain pension and postretirement benefit obligations, all net of tax.

## Foreign Currency Translation

In addition to U.S. operations, the Company has operations in Canada, Europe and other jurisdictions. The functional currency for foreign operations is generally the local currency, other than in the Aerospace business in which the U.S. dollar is typically the functional currency. The value of assets and liabilities of the foreign operations is translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates during the year. The resulting foreign currency translation gains and losses, as well as offsetting gains and losses on hedges of net investments in foreign operations, are reflected in AOCI. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency are included in *Other income*.

## Pension and Other Postretirement Benefits

CIT has both funded and unfunded noncontributory defined benefit pension and postretirement plans covering certain U.S. and non-U.S. employees, each of which is designed in accordance with the practices and regulations in the related countries.

Recognition of the funded status of a benefit plan, which is measured as the difference between plan assets at fair value and the benefit obligation, is included in the balance sheet. The Company recognizes as a component of Other Comprehensive Income, net of tax, the net actuarial gains or losses and prior service cost or credit that arise during the period but are not recognized as components of net periodic benefit cost in the Statement of Operations.

---

**Table of Contents**98 CIT ANNUAL REPORT 2014

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Variable Interest Entities**

A VIE is a corporation, partnership, limited liability company, or any other legal structure used to conduct activities or hold assets. These entities: lack sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; have equity owners who either do not have voting rights or lack the ability to make significant decisions affecting the entity's operations; and/or have equity owners that do not have an obligation to absorb the entity's losses or the right to receive the entity's returns.

The Company accounts for its VIEs in accordance with Accounting Standards Update ("ASU") No. 2009-16, *Transfers and Servicing (Topic 860) — Accounting for Transfers of Financial Assets* and ASU No. 2009-17, *Consolidations (Topic 810) — Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. ASU 2009-17 amended the VIEs Subsections of ASC Subtopic 810-10 to require former qualified special purpose entities to be evaluated for consolidation and also changed the approach to determining a VIE's primary beneficiary ("PB") and required companies to more frequently reassess whether they must consolidate VIEs. Under the new guidance, the PB is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE's economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (such as asset managers, collateral managers, servicers, or owners of call options or liquidation rights over the VIE's assets) or have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, servicing fees, and derivative or other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE's capital structure; and the reasons why the interests are held by the Company.

The Company performs on-going reassessments of: (1) whether any entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and are therefore subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation conclusion regarding the VIE to change.

When in the evaluation of its interest in each VIE it is determined that the Company is considered the primary beneficiary, the VIE's assets, liabilities and non-controlling interests are consolidated and included in the Consolidated Financial Statements. See *Note 10 — Long Term Borrowings* for further details.

**Non-interest Income**

Non-interest income is recognized in accordance with relevant authoritative pronouncements and includes rental income on operating leases and other income. *Other income* includes (1) factoring commissions, (2) gains and losses on sales of equipment (3) fee revenues, including fees on lines of credit, letters of credit, capital markets related fees, agent and advisory fees and servicing fees (4) gains and losses on loan and portfolio sales, (5) recoveries on loans charged-off pre-emergence and loans

charged-off prior to transfer to AHFS, (6) gains and losses on investments, (7) gains and losses on derivatives and foreign currency exchange, (8) counterparty receivable accretion, (9) impairment on assets held for sale, and (10) other revenues.

### **Other Expenses**

Other expenses include (1) depreciation on operating lease equipment, (2) maintenance and other operating lease expenses, (3) operating expenses, which include compensation and benefits, technology costs, professional fees, net occupancy expenses, provision for severance and facilities exiting activities, advertising and marketing, and other expenses and (4) losses on debt extinguishments.

### **Stock-Based Compensation**

Compensation expense associated with equity-based awards is recognized over the vesting period (requisite service period), generally three years, under the “graded vesting” attribution method, whereby each vesting tranche of the award is amortized separately as if each were a separate award. The cost of awards granted to directors in lieu of cash is recognized using the single-grant approach with immediate vesting and expense recognition. Expenses related to stock-based compensation are included in Operating Expenses.

### **Earnings per Share (“EPS”)**

Basic EPS is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income by the weighted-average number of common shares outstanding increased by the weighted-average potential impact of dilutive securities. The Company’s potential dilutive instruments primarily include restricted unvested stock grants and performance stock grants. The dilutive effect is computed using the treasury stock method, which assumes the conversion of these instruments. However, in periods when there is a net loss, these shares would not be included in the EPS computation as the result would have an anti-dilutive effect.

### **Accounting for Costs Associated with Exit or Disposal Activities**

A liability for costs associated with exit or disposal activities, other than in a business combination, is recognized when the liability is incurred. The liability is measured at fair value, with adjustments for changes in estimated cash flows recognized in earnings.

---

### **Table of Contents**

CIT ANNUAL REPORT 2014 99

---

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Consolidated Statements of Cash Flows**

Unrestricted cash and cash equivalents includes cash and interest-bearing deposits, which are primarily overnight money market investments and short term investments in mutual funds. The Company maintains cash balances principally at financial institutions located in the U.S. and Canada. The balances are not insured in all cases. Cash and cash equivalents also include amounts at CIT Bank, which are only available for the bank’s funding and investment requirements. Cash inflows and outflows from customer deposits are presented on a net basis. Most factoring receivables are presented on a net basis in the Statements of Cash Flows, as factoring receivables are generally less than 90 days.

Cash receipts and cash payments resulting from purchases and sales of loans, securities, and other financing and leasing assets are classified as operating cash flows in accordance with ASC 230-10-45-21 when these assets are originated/acquired and designated specifically for resale.

Activity for loans originated or acquired for investment purposes, including those subsequently transferred to AHFS, is classified in the investing section of the statement of cash flows in accordance with ASC 230-10-45-12 and 230-10-45-13. The vast majority of

the Company's loan originations are for investment purposes. Cash receipts resulting from sales of loans, beneficial interests and other financing and leasing assets that were not specifically originated and/or acquired and designated for resale are classified as investing cash inflows regardless of subsequent classification.

Activity of the discontinued operation is included in various line items of the Statements of Cash Flows.

### **Fresh Start Accounting**

The consolidated financial statements include the effects of adopting Fresh Start Accounting ("FSA") upon the Company's emergence from bankruptcy on December 10, 2009, based on a convenience date of December 31, 2009 (the "Convenience Date"), as required by U.S. GAAP. Accretion and amortization of certain FSA adjustments are included in the consolidated Statements of Operations and Cash Flows.

Interest income includes a component of accretion of the fair value discount on loans recorded in connection with FSA. The remaining balance at December 31, 2014 was not significant.

For finance receivables that were considered impaired at the FSA date and for which the cash flows were evaluated based on expected cash flows that were less than contractual cash flows, there is an accretable and a non-accretable discount. The accretable discount was accreted using the effective interest method as a yield adjustment over the remaining term of the loan and recorded in Interest Income. The non-accretable discount reflected the present value of the difference between the excess of cash flows contractually required to be paid and expected cash flows (i.e. credit component) and the remaining balance at December 31, 2014 was not significant. Operating lease equipment purchased prior to emergence from bankruptcy in 2009 was recorded at estimated fair value at emergence and is carried at that new basis less accumulated depreciation.

### **NEW ACCOUNTING PRONOUNCEMENTS**

#### **Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity**

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, in April 2014, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The final guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The ASU is aimed at reducing the frequency of disposals reported as discontinued operations by focusing on strategic shifts that have or will have a major effect on an entity's operations and financial results. In another change from current GAAP, the guidance permits companies to have continuing cash flows and significant continuing involvement with the disposed component.

The ASU eliminates most of the scope exceptions in current GAAP. Under the revised standard, a discontinued operation is (1) a component of an entity or group of components that has been disposed of by sale, disposed of other than by sale or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity's operations and financial results or (2) an acquired business or nonprofit activity that is classified as held for sale on the date of the acquisition. The guidance does not change the presentation requirements for discontinued operations in the statement where net income is presented. Although it permits significant continuing involvement, the standard does not address how companies should present continuing involvement with a discontinued operation prior to the disposal. Also, the ASU requires the reclassification of assets and liabilities of a discontinued operation in the statement of financial position for all prior periods presented.

The standard expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation, an entity's continuing involvement with a discontinued operation following the disposal date, and retained equity method investments in a discontinued operation.

For public entities, the guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within that year. The ASU is applied prospectively. CIT adopted this ASU on January 1, 2015, which did not impact CIT's consolidated financial statements or disclosures, but will result in additional disclosures for future dispositions.

#### **Revenue Recognition**

The FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, in June 2014, which will supersede virtually all of the revenue recognition guidance in GAAP.

The core principle of the five-step model is that a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In doing so, many companies will have to make more

**Table of Contents**

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

estimates and use more judgment than they do under current GAAP. The five-step analysis of transactions, to determine when and how revenue is recognized, includes:

1. Identify the contract with the customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognize revenue when or as each performance obligation is satisfied.

Companies can choose to apply the standard using either the full retrospective approach or a modified retrospective approach. Under the modified approach, financial statements will be prepared for the year of adoption using the new standard, but prior periods will not be adjusted. Instead, companies will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the company and disclose all line items in the year of adoption as if they were prepared under today's revenue guidance.

The FASB has set an effective date of fiscal years beginning after December 15, 2016 for public entities. However, public companies that choose full retrospective application will need to apply the standard to amounts they report for 2015 and 2016 on the face of their 2017 financial statements. CIT is required to adopt the ASU and is currently evaluating the impact of adoption. CIT has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

**Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period**

The FASB issued ASU No. 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*, in June 2014.

The ASU directs that a performance target that affects vesting and can be achieved after the requisite service period is a performance condition. That is, compensation cost would be recognized over the required service period if it is probable that the performance condition would be achieved. The total amount of compensation cost recognized during and after the requisite service period would reflect the number of awards that are expected to vest and would be adjusted to reflect those awards that ultimately vest.

## Edgar Filing: CIT GROUP INC - Form 10-K

The ASU does not require additional disclosures. Entities may apply the amendments in this Update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. If retrospective transition is adopted, the cumulative effect of applying this ASU as of the beginning of the earliest annual period presented in the financial statements should be recognized as an adjustment to the opening retained earnings balance at that date. Additionally, if retrospective transition is adopted, an entity may use hindsight in measuring and recognizing the compensation cost.

The ASU is effective for annual periods beginning after December 15, 2015 and interim periods within those years. Early adoption is permitted. CIT is currently evaluating the impact of adopting this ASU and is reviewing existing awards for applicability.

### **Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern**

The FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, in August 2014. This ASU describes how entities should assess their ability to meet their obligations and sets disclosure requirements about how this information should be communicated. The standard will be used along with existing auditing standards, and provides the following key guidance:

1. Entities must perform a going concern assessment by evaluating their ability to meet their obligations for a look-forward period of one year from the financial statement issuance date (or date the financial statements are available to be issued).
2. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management's plans.
3. Pursuant to the ASU, substantial doubt about an entity's ability to continue as a going concern exists if it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the annual or interim financial statements are issued or available to be issued (assessment date).

The new standard applies to all entities for the first annual period ending after December 15, 2016. Company management is responsible for assessing going concern uncertainties at each annual and interim reporting period thereafter. The adoption of this guidance is not expected to have a significant impact on CIT's financial statements or disclosures.

### **Pushdown Accounting**

The FASB issued ASU No. 2014-17, *Business Combinations (Topic 805): Pushdown Accounting (a Consensus of the FASB Emerging Issues Task Force)*, in November 2014, to provide guidance for newly acquired businesses and organizations that prepare financial statements separately from their parents.

An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable.

---

### **Table of Contents**

CIT ANNUAL REPORT 2014 101

---

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amendments in this Update are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The adoption of this guidance did not impact CIT's consolidated financial statements or disclosures.

## **NOTE 2 — ACQUISITION AND DISPOSITION ACTIVITIES**

During 2014, the Company completed the following significant business acquisitions and disposition. There were no significant business acquisitions or dispositions during 2013 or 2012.

### **Nacco Acquisition**

On January 31, 2014, CIT acquired 100% of the outstanding shares of Paris-based Nacco SAS ("Nacco"), an independent full service railcar lessor in Europe. The purchase price was approximately \$250 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date, resulting in \$77 million of goodwill. The purchase included approximately \$650 million of assets (operating lease equipment), comprised of more than 9,500 railcars, including: tank cars, flat cars, gondolas and hopper cars, and liabilities, including secured debt of \$375 million.

### **Direct Capital Acquisition**

On August 1, 2014, CIT Bank acquired 100% of the outstanding shares of Capital Direct Group and its subsidiaries ("Direct Capital"), a U.S. based lender providing equipment leasing and financing to small and mid-sized businesses operating across a range of industries. The purchase price was approximately \$230 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date resulting in approximately \$170 million of goodwill. The assets acquired included finance receivables of approximately \$540 million, along with existing secured debt of \$487 million. In addition, intangible assets of approximately \$12 million were recorded relating mainly to the valuation of existing customer relationships and trade names.

### **Student Lending Business Disposition**

On April 25, 2014, the Company completed the sale of its student lending business, along with certain secured debt and servicing rights. As a result, the student lending business is reported as a discontinued operation for all periods presented. The business was in run-off and \$3.4 billion in portfolio assets were classified as assets held for sale as of December 31, 2013.

The operating results and the assets and liabilities of the discontinued operation, which was formerly included in the Non-Strategic Portfolios segment, are presented separately in the Company's Consolidated Financial Statements. The individual assets and liabilities of the discontinued Student Lending operation are combined in the captions "Assets of discontinued operation" and "Liabilities of discontinued operation" in the consolidated Balance Sheet.

In connection with the classification of the student lending business as a discontinued operation, certain indirect operating expenses that previously had been allocated to the business, have instead been allocated to Corporate and Other as part of continuing operations and are not included in the summary of discontinued operation presented in the table below. The total incremental pretax amounts of indirect overhead expense that were previously allocated to the student lending business and remain in continuing operations were approximately \$1.7 million, \$8.8 million and \$15.3 million for the years ended December 31, 2014, 2013 and 2012, respectively.

Interest expense allocated to the discontinued operation corresponds to debt of approximately \$3.2 billion, net of \$224 million of FSA. The debt included \$0.8 billion that was repaid using a portion of the cash proceeds. Salaries and general operating expenses included in discontinued operation consists of direct expenses of the student lending business that are separate from ongoing CIT operations and will not continue subsequent to disposal.

Income from the discontinued operation for 2014 reflected the benefit of proceeds received in excess of the net carrying value of assets and liabilities sold. The interest expense primarily reflected the acceleration of FSA accretion of \$224 million on the extinguishment of the debt, while the gain on sale mostly reflected the excess of purchase price over net assets, and amounts received for the sale of servicing rights.

Summarized financial information for the discontinued business is shown below.



**Assets and Liabilities of Discontinued Operation** (dollars in millions)

	December 31, 2014	December 31, 2013
<b>Assets:</b>		
Assets held for sale	\$ —	\$3,374.5
Cash	—	94.5
Other assets	—	352.4
<b>Total assets</b>	<b>\$ —</b>	<b>\$3,821.4</b>
<b>Liabilities:</b>		
Long-term borrowings (secured)	\$ —	\$3,265.6
Other liabilities	—	12.0
<b>Total Liabilities</b>	<b>\$ —</b>	<b>\$3,277.6</b>

**Item 8: Financial Statements and Supplementary Data****Table of Contents**

102 CIT ANNUAL REPORT 2014

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Operating Results of Discontinued Operation** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Interest income	\$ 27.0	\$ 130.7	\$ 178.3
Interest expense	(248.2)	(77.2)	(231.8)
Other income	(2.1)	0.9	38.3
Operating expenses	(3.6)	(14.5)	(24.2)
Income (loss) from discontinued operation before provision for income taxes	(226.9)	39.9	(39.4)
Provision for income taxes	(3.4)	(8.6)	(17.1)
<b>Income (loss) from discontinued operation, net of taxes</b>	<b>(230.3)</b>	<b>31.3</b>	<b>(56.5)</b>
<b>Gain on sale of discontinued operation</b>	<b>282.8</b>	<b>—</b>	<b>—</b>
<b>Income (loss) from discontinued operation, net of taxes</b>	<b>\$ 52.5</b>	<b>\$ 31.3</b>	<b>\$ (56.5)</b>

## NOTE 3 — LOANS

Finance receivables consist of the following:

**Finance Receivables by Product** (dollars in millions)

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014	December 31, 2013
Loans	\$ 14,398.2	\$ 13,814.3
Direct financing leases and leveraged leases	5,096.8	4,814.9
<b>Finance receivables</b>	<b>19,495.0</b>	<b>18,629.2</b>
Finance receivables held for sale	779.9	794.3
Finance receivables and held for sale receivables <sup>(1)</sup>	\$ 20,274.9	\$ 19,423.5

<sup>(1)</sup> Assets held for sale on the Balance Sheet includes finance receivables and operating lease equipment. As discussed in subsequent tables, since the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, the aggregate amount is presented in this table.

The following table presents finance receivables by segment, based on obligor location:

**Finance Receivables (dollars in millions)**

	December 31, 2014			December 31, 2013		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Transportation & International Finance	\$ 812.6	\$2,746.3	\$ 3,558.9	\$ 666.6	\$2,827.8	\$ 3,494.4
North American Commercial Finance	14,645.1	1,290.9	15,936.0	13,196.7	1,496.4	14,693.1
Non-Strategic Portfolios	–	0.1	0.1	117.9	323.8	441.7
Total	\$15,457.7	\$4,037.3	\$19,495.0	\$13,981.2	\$4,648.0	\$18,629.2

The following table presents selected components of the net investment in finance receivables.

**Components of Net Investment in Finance Receivables (dollars in millions)**

	December 31, 2014	December 31, 2013
Unearned income	\$ (869.6)	\$ (942.0)
Equipment residual values	684.2	669.2
Unamortized (discounts)	(22.0)	(47.9)
Net unamortized deferred costs and (fees)	48.5	49.7
Leveraged lease third party non-recourse debt payable	(180.5)	(203.8)

Certain of the following tables present credit-related information at the “class” level in accordance with ASC 310-10-50, *Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses*. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Credit Quality Information**

The following table summarizes finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. Customer risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers' ability to fulfill their obligations.

The definitions of these ratings are as follows:

- Pass – finance receivables in this category do not meet the criteria for classification in one of the categories below.
- Special mention – a special mention asset exhibits potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.
- Classified – a classified asset ranges from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

**Finance and Held for Sale Receivables — By Risk Rating** (dollars in millions)

	<b>Transportation &amp; International Finance</b>		<b>North American Commercial Finance</b>				<b>Subtotal</b>	<b>Non-Strategic Portfolios</b>	<b>Total</b>
	<b>Transportation Finance</b>	<b>International Finance</b>	<b>Corporate Finance</b>	<b>Equipment Finance</b>	<b>Real Estate Finance</b>	<b>Commercial Services</b>			
<b>Grade:</b>									
<b>December 31, 2014</b>									
Pass	\$2,895.9	\$ 820.2	\$6,199.0	\$4,129.1	\$1,692.0	\$2,084.1	\$17,820.3	\$ 288.7	\$18,109.0
Special mention	12.8	107.9	561.0	337.8	76.6	278.8	1,374.9	18.4	1,393.3
Classified – accruing	44.1	58.0	121.8	180.4	–	197.3	601.6	10.5	612.1
Classified – non-accrual	0.1	37.1	30.9	70.0	–	–	138.1	22.4	160.5
<b>Total</b>	<b>\$2,952.9</b>	<b>\$1,023.2</b>	<b>\$6,912.7</b>	<b>\$4,717.3</b>	<b>\$1,768.6</b>	<b>\$2,560.2</b>	<b>\$19,934.9</b>	<b>\$ 340.0</b>	<b>\$20,274.9</b>
<b>December 31, 2013</b>									
Pass	\$1,627.4	\$1,530.3	\$5,783.1	\$3,355.2	\$1,554.8	\$1,804.6	\$15,655.4	\$ 685.5	\$16,340.9
Special mention	28.6	145.8	769.5	363.5	–	314.7	1,622.1	350.1	1,972.2
Classified – accruing	97.2	36.2	233.6	266.0	–	138.9	771.9	97.8	869.7
Classified – non-accrual	14.3	21.0	83.8	59.4	–	4.2	182.7	58.0	240.7
<b>Total</b>	<b>\$1,767.5</b>	<b>\$1,733.3</b>	<b>\$6,870.0</b>	<b>\$4,044.1</b>	<b>\$1,554.8</b>	<b>\$2,262.4</b>	<b>\$18,232.1</b>	<b>\$1,191.4</b>	<b>\$19,423.5</b>

*Past Due and Non-accrual Loans*

The table that follows presents portfolio delinquency status, regardless of accrual/non-accrual classification:

**Finance and Held for Sale Receivables — Delinquency Status** (dollars in millions)

	30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Finance Receivables
<b>December 31, 2014</b>						
Transportation Finance	\$ 5.2	\$ 1.9	\$ 4.3	\$ 11.4	\$ 2,941.5	\$ 2,952.9
International Finance	43.9	7.0	21.6	72.5	950.7	1,023.2
Corporate Finance	4.4	–	0.5	4.9	6,907.8	6,912.7
Equipment Finance	93.7	32.9	14.9	141.5	4,575.8	4,717.3
Real Estate Finance	–	–	–	–	1,768.6	1,768.6
Commercial Services	62.2	3.3	0.9	66.4	2,493.8	2,560.2
Sub-total	209.4	45.1	42.2	296.7	19,638.2	19,934.9
Non-Strategic Portfolios	16.4	6.9	9.6	32.9	307.1	340.0
Total	\$ 225.8	\$ 52.0	\$ 51.8	\$ 329.6	\$ 19,945.3	\$ 20,274.9
<b>December 31, 2013</b>						
Transportation Finance	\$ 18.3	\$ 0.9	\$ 0.5	\$ 19.7	\$ 1,747.8	\$ 1,767.5
International Finance	30.6	11.6	12.6	54.8	1,678.5	1,733.3
Corporate Finance	–	–	17.8	17.8	6,852.2	6,870.0
Equipment Finance	116.6	30.0	18.6	165.2	3,878.9	4,044.1
Real Estate Finance	–	–	–	–	1,554.8	1,554.8
Commercial Services	47.9	2.4	1.0	51.3	2,211.1	2,262.4
Sub-total	213.4	44.9	50.5	308.8	17,923.3	18,232.1
Non-Strategic Portfolios	29.7	7.9	16.2	53.8	1,137.6	1,191.4
Total	\$ 243.1	\$ 52.8	\$ 66.7	\$ 362.6	\$ 19,060.9	\$ 19,423.5

**Item 8: Financial Statements and Supplementary Data****Table of Contents****104** CIT ANNUAL REPORT 2014**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table sets forth non-accrual loans and assets received in satisfaction of loans (repossessed assets). Non-accrual loans include loans that are individually evaluated and determined to be impaired (generally loans with balances greater than \$500,000), as well as other, smaller balance loans placed on non-accrual due to delinquency (generally 90 days or more).

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

December 31, 2014			December 31, 2013		
Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014			December 31, 2013		
Transportation Finance	\$ 0.1	\$ –	\$ 0.1	\$ 14.3	\$ –	\$ 14.3
International Finance	22.4	14.7	37.1	21.0	–	21.0
Corporate Finance	30.9	–	30.9	83.5	0.3	83.8
Equipment Finance	70.0	–	70.0	59.4	–	59.4
Commercial Services	–	–	–	4.2	–	4.2
Sub-total	123.4	14.7	138.1	182.4	0.3	182.7
Non-Strategic Portfolios	–	22.4	22.4	17.6	40.4	58.0
Total	\$ 123.4	\$ 37.1	\$ 160.5	\$ 200.0	\$ 40.7	\$ 240.7
Repossessed assets			0.8			7.0
Total non-performing assets			\$ 161.3			\$ 247.7
Total Accruing loans past due 90 days or more			\$ 10.3			\$ 9.9

Payments received on non-accrual financing receivables are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis.

### Impaired Loans

The Company's policy is to review for impairment finance receivables greater than \$500,000 that are on non-accrual status. Small-ticket loan and lease receivables that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables, 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.

The following table contains information about impaired finance receivables and the related allowance for loan losses, exclusive of finance receivables that were identified as impaired at the Convenience Date for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*), which are disclosed further below in this note.

### Table of Contents

CIT ANNUAL REPORT 2014 105

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Impaired Loans (dollars in millions)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
<b>December 31, 2014</b>				
<b>With no related allowance recorded:</b>				
International Finance	\$ 10.2	\$ 17.0	\$ –	\$ 10.1
Corporate Finance	1.2	1.2	–	104.9
Equipment Finance	5.6	6.8	–	5.8
Commercial Services	4.2	4.2	–	6.9
Non-Strategic Portfolios	–	–	–	3.4
<b>With an allowance recorded:</b>				

Edgar Filing: CIT GROUP INC - Form 10-K

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
<b>December 31, 2014</b>				
Transportation Finance	-	-	-	9.0
International Finance	6.0	6.0	1.0	3.4
Corporate Finance	29.6	34.3	11.4	43.5
Equipment Finance	-	-	-	0.8
Commercial Services	-	-	-	2.8
Total Impaired Loans <sup>(1)</sup>	56.8	69.5	12.4	190.6
Total Loans Impaired at Convenience Date <sup>(2)</sup>	1.2	15.8	0.5	26.4
Total	\$ 58.0	\$ 85.3	\$ 12.9	\$ 217.0
<b>December 31, 2013</b>				
<b>With no related allowance recorded:</b>				
Transportation Finance	\$ -	\$ -	\$ -	\$ 2.2
International Finance	6.9	24.5	-	6.9
Corporate Finance	136.1	150.1	-	152.8
Equipment Finance	5.8	7.9	-	7.0
Commercial Services	9.1	9.1	-	10.0
Non-Strategic Portfolios	10.2	12.5	-	24.0
<b>With an allowance recorded:</b>				
Transportation Finance	14.3	14.3	0.6	12.4
Corporate Finance	50.6	51.7	28.8	79.7
Commercial Services	4.2	4.2	1.0	4.6
Non-Strategic Portfolios	-	-	-	1.0
Total Impaired Loans <sup>(3)</sup>	237.2	274.3	30.4	300.6
Total Loans Impaired at Convenience Date <sup>(4)</sup>	54.1	95.8	1.0	77.9
Total	\$ 291.3	\$ 370.1	\$ 31.4	\$ 378.5

<sup>(1)</sup> Interest income recorded for the year ended December 31, 2014 while the loans were impaired was \$10.1 million of which \$0.7 million was interest recognized using cash-basis method of accounting.

<sup>(2)</sup> Details of finance receivables that were identified as impaired at the Convenience Date are presented under Loans and Debt Securities Acquired with Deteriorated Credit Quality.

<sup>(3)</sup> Interest income recorded for the year ended December 31, 2013 while the loans were impaired was \$17.7 million of which \$3.5 million was interest recognized using the cash-basis method of accounting.

<sup>(4)</sup> Details of finance receivables that were identified as impaired at the Convenience Date are presented under Loans and Debt Securities Acquired with Deteriorated Credit Quality.

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. 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.

Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable. A specific allowance or charge-off is recorded for the shortfall. In instances where the estimated value exceeds the recorded investment, no specific allowance is recorded. The estimated value is determined using fair value of collateral and other cash flows if the finance receivable is collateralized, the present value of expected future cash flows discounted at the contract's effective interest rate, or market price. A shortfall between the estimated value and recorded investment in the finance receivable is reported in the provision for credit losses. In instances when the Company measures impairment based on the present value of expected future cash flows, the change in present value is reported in the provision for credit losses.

The following summarizes key elements of the Company's policy regarding the determination of collateral fair value in the measurement of impairment:

- "Orderly liquidation value" is the basis for collateral valuation;
- Appraisals are updated annually or more often as market conditions warrant; and
- Appraisal values are discounted in the determination of impairment if the:
  - appraisal does not reflect current market conditions; or
  - collateral consists of inventory, accounts receivable, or other forms of collateral that may become difficult to locate, collect or subject to pilferage in a liquidation.

#### **Loans and Debt Securities Acquired with Deteriorated Credit Quality**

For purposes of this presentation, the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to finance receivables that were identified as impaired under FSA at the Convenience Date. At December 31, 2014 and 2013, the carrying amounts approximated \$1 million and \$54 million, respectively, and the outstanding balance approximated \$16 million and \$96 million, respectively. The outstanding balance represents the sum of contractual principal, interest and fees earned at the reporting date, calculated as pre-FSA net investment plus inception to date charge-offs. The allowance for loan losses on these loans was \$0.5 million at December 31, 2014 and \$1.0

million at December 31, 2013. See *Note 4 — Allowance for Loan Losses*.

### **Troubled Debt Restructurings**

The Company periodically modifies the terms of finance receivables in response to borrowers' difficulties. Modifications that include a financial concession to the borrower are accounted for as troubled debt restructurings (TDRs).

CIT uses a consistent methodology across all loans to determine if a modification is with a borrower that has been determined to be in financial difficulty and was granted a concession. Specifically, the Company's policies on TDR identification include the following examples of indicators used to determine whether the borrower is in financial difficulty:

- Borrower is in default with CIT or other material creditor
- Borrower has declared bankruptcy
- Growing doubt about the borrower's ability to continue as a going concern
- Borrower has (or is expected to have) insufficient cash flow to service debt
- Borrower is de-listing securities
- Borrower's inability to obtain funds from other sources
- Breach of financial covenants by the borrower.

If the borrower is determined to be in financial difficulty, then CIT utilizes the following criteria to determine whether a concession has been granted to the borrower:

- Assets used to satisfy debt are less than CIT's recorded investment in the receivable
- Modification of terms – interest rate changed to below market rate
- Maturity date extension at an interest rate less than market rate
- The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms
- Capitalization of interest
- Increase in interest reserves
- Conversion of credit to Payment-In-Kind (PIK)
- Delaying principal and/or interest for a period of three months or more
- Partial forgiveness of the balance.

---

### **Table of Contents**



## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Modified loans that meet the definition of a TDR are subject to the Company's standard impaired loan policy, namely that non-accrual loans in excess of \$500,000 are individually reviewed for impairment, while non-accrual loans less than \$500,000 are considered as part of homogenous pools and are included in the determination of the non-specific allowance.

The recorded investment of TDRs at December 31, 2014 and 2013 was \$17.2 million and \$220.9 million, of which 75% and 33%, respectively were on non-accrual. NACF receivables accounted for 91% of the total TDRs at December 31, 2014 and 80% at December 31, 2013, and there were \$0.8 million and \$7.1 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

Recorded investment related to modifications qualifying as TDRs that occurred during the years ended December 31, 2014 and 2013 were \$10.3 million and \$24.6 million, respectively. The recorded investment of TDRs that experienced a payment default (payment default is one missed payment), during the years ended December 31, 2014 and 2013, and for which the payment default occurred within one year of the modification totaled \$1.0 million and \$5.7 million at the time of default, respectively. The 2014 and 2013 defaults related to NACF and NSP.

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on the 2014 amounts, the overall nature and impact of modification programs were comparable in the prior year.

- The nature of modifications qualifying as TDR's based upon recorded investment at December 31, 2014 and 2013 was comprised of payment deferrals for 35% and 88%, covenant relief for 65% and 11%, and interest rate reductions and debt forgiveness for 0% and 1%;
- Payment deferrals result in lower net present value of cash flows, if not accompanied by additional interest or fees, and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the moderate length of deferral periods;
- Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company's restructuring programs. Additionally, in some instances, modifications improve the Company's economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers' ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the years ended December 31, 2014 and 2013 was not significant;
- Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the amounts of principal forgiveness for TDRs occurring during 2014 and 2013 totaled \$0 million and \$12.2 million, respectively, as debt forgiveness is a relatively small component of the Company's modification programs; and
- The other elements of the Company's modification programs that are not TDRs, do not have a significant impact on financial results given their relative size, or do not have a direct financial impact, as in the case of covenant changes.

**Item 8:** Financial Statements and Supplementary Data**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4 — ALLOWANCE FOR LOAN LOSSES

**Allowance for Loan Losses and Recorded Investment in Finance Receivables**

As of and for the Years Ended December 31 (dollars in millions)

	2014				
	<b>Transportation &amp; International Finance</b>	<b>North American Commercial Finance</b>	<b>Non-Strategic Portfolios</b>	<b>Corporate and Other</b>	<b>Total</b>
Beginning balance	\$ 46.7	\$ 303.8	\$ 5.6	\$ —	\$ 356.1
Provision for credit losses	38.3	62.0	(0.4)	0.2	100.1
Other <sup>(1)</sup>	(0.5)	(10.0)	—	(0.2)	(10.7)
Gross charge-offs <sup>(2)</sup>	(44.8)	(75.2)	(7.5)	—	(127.5)
Recoveries	7.1	19.0	2.3	—	28.4
Allowance balance – end of period	\$ 46.8	\$ 299.6	\$ —	\$ —	\$ 346.4
<b>Allowance balance:</b>					
Loans individually evaluated for impairment	\$ 1.0	\$ 11.4	\$ —	\$ —	12.4
Loans collectively evaluated for impairment	45.8	287.7	—	—	333.5
Loans acquired with deteriorated credit quality <sup>(3)</sup>	—	0.5	—	—	0.5
Allowance balance – end of period	\$ 46.8	\$ 299.6	\$ —	\$ —	\$ 346.4
Other reserves <sup>(1)</sup>	\$ 0.3	\$ 35.1	\$ —	\$ —	\$ 35.4
<b>Finance receivables:</b>					
Loans individually evaluated for impairment	\$ 17.6	\$ 40.6	\$ —	\$ —	58.2
Loans collectively evaluated for impairment	3,541.3	15,894.2	0.1	—	19,435.6
Loans acquired with deteriorated credit quality <sup>(3)</sup>	—	1.2	—	—	1.2
Ending balance	\$ 3,558.9	\$ 15,936.0	\$ 0.1	\$ —	\$ 19,495.0
Percent of loans to total loans	18.3%	81.7%	—	—	100.0%
	2013				
Beginning balance	\$ 44.3	\$ 293.7	\$ 41.3	\$ —	\$ 379.3
Provision for credit losses	18.7	35.5	10.8	(0.1)	64.9
Other <sup>(1)</sup>	0.6	(6.9)	(1.2)	0.1	(7.4)
Gross charge-offs <sup>(2)</sup>	(26.0)	(58.3)	(54.3)	—	(138.6)
Recoveries	9.1	39.8	9.0	—	57.9
Allowance balance – end of period	\$ 46.7	\$ 303.8	\$ 5.6	\$ —	\$ 356.1
<b>Allowance balance:</b>					
Loans individually evaluated for impairment	\$ 0.6	\$ 29.8	\$ —	\$ —	\$ 30.4
Loans collectively evaluated for impairment	46.1	273.0	5.6	—	324.7

2014

Loans acquired with deteriorated credit quality <sup>(3)</sup>	—	1.0	—	—	1.0
Allowance balance – end of period	\$ 46.7	\$ 303.8	\$ 5.6	\$ —	\$ 356.1
Other reserves <sup>(1)</sup>	\$ 0.2	\$ 27.6	\$ —	\$ —	\$ 27.8
<b>Finance receivables:</b>					
Loans individually evaluated for impairment	\$ 21.2	\$ 205.8	\$ 10.2	\$ —	\$ 237.2
Loans collectively evaluated for impairment	3,473.1	14,435.1	429.7	—	18,337.9
Loans acquired with deteriorated credit quality <sup>(3)</sup>	0.1	52.2	1.8	—	54.1
Ending balance	\$ 3,494.4	\$ 14,693.1	\$ 441.7	\$ —	\$ 18,629.2
Percent of loans to total loans	18.7%	78.9%	2.4%	—	100.0%

<sup>(1)</sup> "Other reserves" represents additional credit loss reserves for unfunded lending commitments, letters of credit and for deferred purchase agreements, all of which is recorded in Other Liabilities. "Other" also includes changes relating to sales and foreign currency translations.

<sup>(2)</sup> Gross charge-offs included \$13 million and \$18 million charged directly to the Allowance for loan losses for the years ended December 31, 2014 and December 31, 2013, respectively. In 2014, \$13 million related to NACF. In 2013, \$16 million related to NACF and \$2 million to NSP.

<sup>(3)</sup> Represents loans considered impaired in FSA and are accounted for under the guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality).

## Table of Contents

CIT ANNUAL REPORT 2014 109

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 5 — OPERATING LEASE EQUIPMENT

The following table provides the net book value (net of accumulated depreciation of \$1.8 billion at December 31, 2014 and \$1.5 billion at December 31, 2013) of operating lease equipment, by equipment type.

#### Operating Lease Equipment (dollars in millions)

	December 31, 2014	December 31, 2013
Commercial aircraft (including regional aircraft)	\$ 8,890.1	\$ 8,229.1
Railcars and locomotives	5,714.0	4,500.1
Other equipment	326.3	306.2
Total <sup>(1)</sup>	\$ 14,930.4	\$ 13,035.4

<sup>(1)</sup> Includes equipment off-lease of \$183.2 million and \$144.7 million at December 31, 2014 and 2013, respectively, primarily consisting of rail and aerospace assets.

## Edgar Filing: CIT GROUP INC - Form 10-K

The following table presents future minimum lease rentals due on non-cancelable operating leases at December 31, 2014. Excluded from this table are variable rentals calculated on asset usage levels, re-leasing rentals, and expected sales proceeds from remarketing equipment at lease expiration, all of which are components of operating lease profitability.

### Minimum Lease Rentals Due (dollars in millions)

#### Years Ended December 31,

2015	\$ 1,923.0
2016	1,672.8
2017	1,381.2
2018	1,093.3
2019	822.0
Thereafter	2,431.9
Total	\$ 9,324.2

### NOTE 6 — SECURITIES PURCHASED UNDER RESALE AGREEMENTS

At December 31, 2014, the Company had \$650 million of securities purchased under resale agreements. Securities purchased under agreements to resell (reverse repos) generally do not constitute a sale or purchase of the underlying securities for accounting purposes and, therefore are treated as collateralized financing transactions. These agreements are recorded at the amounts at which the securities were acquired. See *Note 13 – Fair Value* for discussion of fair value. These agreements are short-term securities that had maturity dates of 90 days or less and are secured by the underlying collateral, which, along with the cash investment, are maintained by a tri-party custodian.

### NOTE 7 — INVESTMENT SECURITIES

Investments include debt and equity securities. The Company's debt securities primarily include U.S. Treasury securities, U.S. Government Agency securities, and foreign government securities that typically mature in 91 days or less, and the carrying value approximates fair value. Equity securities include common stock and warrants.

### Investment Securities (dollars in millions)

	December 31, 2014	December 31, 2013
Debt securities available-for-sale	\$ 1,116.5	\$ 1,487.8
Equity securities available-for-sale	14.0	13.7
Debt securities held-to-maturity <sup>(1)</sup>	352.3	1,042.3
Non-marketable equity investments <sup>(2)</sup>	67.5	86.9
Total investment securities	\$ 1,550.3	\$ 2,630.7

<sup>(1)</sup> Recorded at amortized cost less impairment on securities that have credit-related impairment.

<sup>(2)</sup> Non-marketable equity investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method. Non-marketable equity investments include \$19.7 million and \$23.6 million in limited partnerships at December 31, 2014 and 2013, respectively, accounted for under the equity method. The remaining investments are carried at cost and 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.

**Table of Contents**

110 CIT ANNUAL REPORT 2014

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Realized investment gains totaled \$39.7 million, \$8.9 million and \$40.4 million for the years ended December 31, 2014, 2013 and 2012, respectively, and exclude losses from OTTI. OTTI credit-related impairments on equity securities recognized in earnings were \$0.7 million, \$0.7 million and \$0.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. Impairment amounts in accumulated other comprehensive income ("AOCI") were not material at December 31, 2014 or December 31, 2013.

In addition, the Company maintained \$6.2 billion and \$5.4 billion of interest bearing deposits at December 31, 2014 and 2013, respectively, which are cash equivalents and are classified separately on the balance sheet.

The following table presents interest and dividends on interest bearing deposits and investments:

**Interest and Dividend Income** (dollars in millions)

	Year Ended December 31,		
	2014	2013	2012
Interest income – interest bearing deposits	\$17.7	\$16.6	\$21.7
Interest income – investments/reverse repos	14.1	8.9	7.8
Dividends – investments	3.7	3.4	2.7
Total interest and dividends	\$35.5	\$28.9	\$32.2

**Securities Available-for-Sale**

The following table presents amortized cost and fair value of securities AFS.

**Securities AFS — Amortized Cost and Fair Value** (dollars in millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2014</b>				
Debt securities AFS				
U.S. Treasury Securities	\$ 200.0	\$ –	\$ –	\$ 200.0
U.S. government agency obligations	904.2	–	–	904.2
Supranational and foreign government securities	12.3	–	–	12.3
Total debt securities AFS	1,116.5	–	–	1,116.5
Equity securities AFS	14.0	0.6	(0.6)	14.0
Total securities AFS	\$1,130.5	\$ 0.6	\$ (0.6)	\$1,130.5
<b>December 31, 2013</b>				
Debt securities AFS				
U.S. Treasury Securities	\$ 649.1	\$ –	\$ –	\$ 649.1
U.S. government agency obligations	711.9	–	–	711.9

Edgar Filing: CIT GROUP INC - Form 10-K

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Supranational and foreign government securities	126.8	–	–	126.8
Total debt securities AFS	1,487.8	–	–	1,487.8
Equity securities AFS	13.5	0.4	(0.2)	13.7
Total securities AFS	\$ 1,501.3	\$ 0.4	\$ (0.2)	\$ 1,501.5

**Table of Contents**

CIT ANNUAL REPORT 2014 111

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Debt Securities Held-to-Maturity**

The carrying value and fair value of securities HTM at December 31, 2014 and December 31, 2013 were as follows:

**Debt Securities HTM — Carrying Value and Fair Value** (dollars in millions)

	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
<b>December 31, 2014</b>				
<i>Mortgage-backed securities</i>				
U.S. government owned and sponsored agencies	\$ 156.3	\$ 2.5	\$ (1.9)	\$ 156.9
State and municipal	48.1	0.1	(1.8)	46.4
Foreign government	37.9	0.1	–	38.0
Corporate – Foreign	110.0	9.0	–	119.0
Total debt securities held-to-maturity	\$ 352.3	\$ 11.7	\$ (3.7)	\$ 360.3
<b>December 31, 2013</b>				
U.S. government agency obligations	\$ 735.5	\$ 0.1	\$ –	\$ 735.6
<i>Mortgage-backed securities</i>				
U.S. government owned and sponsored agencies	96.3	1.7	(5.8)	92.2
State and municipal	57.4	–	(6.5)	50.9
Foreign government	38.3	–	–	38.3
Corporate – Foreign	114.8	9.0	–	123.8
Total debt securities held-to-maturity	\$ 1,042.3	\$ 10.8	\$ (12.3)	\$ 1,040.8

The following table presents the amortized cost and fair value of debt securities HTM by contractual maturity dates:

**Securities HTM — Amortized Cost and Fair Value Maturities** (dollars in millions)

December 31, 2014		December 31, 2013	
Carrying Cost	Fair Value	Carrying Cost	Fair Value

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014		December 31, 2013	
U.S. government agency obligations				
Total — Due within 1 year	\$ —	\$ —	\$ 735.5	\$ 735.6
<i>Mortgage-backed securities</i>				
U.S. government owned and sponsored agencies				
Due after 5 but within 10 years	1.3	1.3	—	—
Due after 10 years <sup>(1)</sup>	155.0	155.6	96.3	92.2
Total	156.3	156.9	96.3	92.2
State and municipal				
Due within 1 year	1.2	1.2	0.7	0.7
Due after 1 but within 5 years	2.9	2.9	4.4	4.4
Due after 5 but within 10 years	—	—	0.7	0.7
Due after 10 years <sup>(1)</sup>	44.0	42.3	51.6	45.1
Total	48.1	46.4	57.4	50.9
Foreign government				
Due within 1 year	10.8	10.8	29.8	29.8
Due after 1 but within 5 years	27.1	27.2	8.5	8.5
Total	37.9	38.0	38.3	38.3
Corporate – Foreign				
Due within 1 year	0.9	0.9	0.8	0.8
Due after 1 but within 5 years	43.7	49.8	48.6	56.1
Due after 5 but within 10 years	65.4	68.3	65.4	66.9
Total	110.0	119.0	114.8	123.8
Total debt securities held-to-maturity	\$ 352.3	\$ 360.3	\$ 1,042.3	\$ 1,040.8

<sup>(1)</sup> Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**

112 CIT ANNUAL REPORT 2014

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 — OTHER ASSETS

The following table presents the components of other assets.

**Other Assets** (dollars in millions)

	December 31, 2014	December 31, 2013
Deposits on commercial aerospace equipment	\$ 736.3	\$ 831.3

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014	December 31, 2013
Deferred federal and state tax assets	422.5	40.0
Fair value of derivative financial instruments	168.0	50.3
Deferred debt costs and other deferred charges	148.1	158.5
Furniture and fixtures	126.4	85.3
Tax receivables, other than income taxes	102.0	132.2
Executive retirement plan and deferred compensation	96.7	101.3
Other <sup>(1)</sup>	332.4	295.2
Total other assets	\$ 2,132.4	\$ 1,694.1

<sup>(1)</sup> Other includes items such as: accrued interest/dividends, fixed assets, prepaid expenses, investments in and receivables from non-consolidated entities, and other miscellaneous assets.

NOTE 9 — DEPOSITS

The following table presents deposits detail, maturities and weighted average interest rates.

**Deposits** (dollars in millions)

	December 31, 2014	December 31, 2013
Deposits Outstanding	\$ 15,849.8	\$ 12,526.5
Weighted average contractual interest rate	1.69%	1.65%
Weighted average remaining number of days to maturity <sup>(1)</sup>	1,247 days	1,014 days
<b>Contractual Maturities and Rates</b>		
Due in 2015—(1.16%) <sup>(2)</sup>	\$ 6,988.4	
Due in 2016—(1.66%)	1,670.6	
Due in 2017—(1.41%)	2,398.2	
Due in 2018—(1.85%)	928.2	
Due in 2019—(2.45%)	1,670.7	
Due after 2019—(3.06%)	2,195.1	
Deposits outstanding, excluding fresh start adjustments	\$ 15,851.2	

<sup>(1)</sup> Excludes deposit balances with no stated maturity.

<sup>(2)</sup> Includes rates on deposit accounts with no stated maturity.

	Years Ended December 31,	
	2014	2013
Daily average deposits	\$ 13,925.4	\$ 11,254.3
Maximum amount outstanding	\$ 15,851.2	\$ 12,605.3
Weighted average contractual interest rate for the year	1.59%	1.56%



## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the maturity profile of deposits with a denomination of \$100,000 or more.

**Certificates of Deposits \$100,000 or More** (dollars in millions)

	At December 31,	
	2014	2013
U.S. certificates of deposits		
Three months or less	\$ 340.9	\$ 317.7
After three months through six months	330.8	258.1
After six months through twelve months	757.8	601.7
After twelve months	2,590.3	1,501.9
Total U.S. certificates of deposits	\$ 4,019.8	\$ 2,679.4
Non-U.S. certificates of deposits	\$ 57.0	\$ 88.3

## NOTE 10 — LONG-TERM BORROWINGS

The following table presents the carrying value of outstanding long-term borrowings:

(dollars in millions)	December 31, 2014			December 31, 2013
	CIT Group Inc.	Subsidiaries	Total	Total
Senior unsecured <sup>(1)</sup>	\$11,932.4	\$ —	\$11,932.4	\$12,531.6
Secured borrowings	—	6,523.4	6,523.4	5,952.9
<b>Total Long-term Borrowings</b>	<b>\$11,932.4</b>	<b>\$6,523.4</b>	<b>\$18,455.8</b>	<b>\$18,484.5</b>

<sup>(1)</sup> Senior Unsecured Notes at December 31, 2014 were comprised of \$8,243.5 million of Unsecured Notes, \$3,650.0 million of Series C Notes and \$38.9 million of other unsecured debt.

The following table summarizes contractual maturities, which excludes original issue discounts and FSA discounts, of total long-term borrowings outstanding:

**Contractual Maturities – Long-term Borrowings** (dollars in millions)

	2015	2016	2017	2018	2019	Thereafter	Contractual Maturities
Senior unsecured	\$1,200.0	\$ —	\$ 3,000.0	\$ 2,200.0	\$ 2,750.0	\$ 2,801.4	\$ 11,951.4
Secured borrowings	1,853.3	1,125.8	893.2	626.1	466.8	1,548.8	6,514.0
	<b>\$3,053.3</b>	<b>\$ 1,125.8</b>	<b>\$ 3,893.2</b>	<b>\$ 2,826.1</b>	<b>\$ 3,216.8</b>	<b>\$ 4,350.2</b>	<b>\$ 18,465.4</b>

On February 15, 2015, the Company repaid the maturing senior unsecured notes.

**Unsecured****Revolving Credit Facility**

There were no outstanding borrowings under the Revolving Credit Facility at December 31, 2014 and 2013. The amount available to draw upon at December 31, 2014 was approximately \$1.4 billion, with the remaining amount of approximately \$0.1 billion being utilized for issuance of letters of credit.

The Revolving Credit Facility has a total commitment amount of \$1.5 billion and the maturity date of the commitment is January 27, 2017. The total commitment amount consists of a \$1.15 billion revolving loan tranche and a \$350 million revolving loan tranche that can also be utilized for issuance of letters of credit. The applicable margin charged under the facility is 2.50% for LIBOR-based loans and 1.50% for Base Rate loans.

The Revolving Credit Facility may be drawn and prepaid at the option of CIT. The unutilized portion of any commitment under the Revolving Credit Facility may be reduced permanently or terminated by CIT at any time without penalty.

The Revolving Credit Facility is unsecured and is guaranteed by eight of the Company's domestic operating subsidiaries. The facility was amended in January 2014 to modify the covenant requiring a minimum guarantor asset coverage ratio and the criteria for calculating the ratio. The amended covenant requires a minimum guarantor asset coverage ratio ranging from 1.25:1.0 to the current requirement of 1.5:1.0 depending on the Company's long-term senior unsecured debt rating.

The Revolving Credit Facility is subject to a \$6 billion minimum consolidated net worth covenant of the Company, tested quarterly, and also limits the Company's ability to create liens, merge or consolidate, sell, transfer, lease or dispose of all or substantially all of its assets, grant a negative pledge or make certain restricted payments during the occurrence and continuance of an event of default.

**Item 8: Financial Statements and Supplementary Data****Table of Contents**

114 CIT ANNUAL REPORT 2014

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Senior Unsecured Notes**

Senior unsecured notes include notes issued under the "shelf" registration filed in March 2012 that was scheduled to mature in the first quarter of 2015, and Series C Unsecured Notes. In January 2015, we filed a new shelf that expires in January 2018. The notes filed under the shelf registration rank equal in right of payment with the Series C Unsecured Notes and the Revolving Credit Facility.

The following tables present the principal amounts of Senior Unsecured Notes issued under the Company's shelf registration and Series C Unsecured Notes by maturity date.

**Senior Unsecured Notes (dollars in millions)**

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>Date of Issuance</u>	<u>Par Value</u>
February 2015*	4.750%	February 2012	1,200.0

Edgar Filing: CIT GROUP INC - Form 10-K

<u>Maturity Date</u>	<u>Rate (%)</u>	<u>Date of Issuance</u>	<u>Par Value</u>
May 2017	5.000%	May 2012	1,250.0
August 2017	4.250%	August 2012	1,750.0
March 2018	5.250%	March 2012	1,500.0
April 2018*	6.625%	March 2011	700.0
February 2019*	5.500%	February 2012	1,750.0
February 2019	3.875%	February 2014	1,000.0
May 2020	5.375%	May 2012	750.0
August 2022	5.000%	August 2012	1,250.0
August 2023	5.000%	August 2013	750.0
Weighted average and total	4.99%		\$11,900.0

\* Series C Unsecured Notes

The Indentures for the Senior Unsecured Notes and Series C Unsecured Notes limit the Company's ability to create liens, merge or consolidate, or sell, transfer, lease or dispose of all or substantially all of its assets. Upon a Change of Control Triggering Event as defined in the Indentures for the Senior Unsecured Notes and Series C Unsecured Notes, holders of the Senior Unsecured Notes and Series C Unsecured Notes will have the right to require the Company, as applicable, to repurchase all or a portion of the Senior Unsecured Notes and Series C Unsecured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of such repurchase.

### Secured Borrowings

At December 31, 2014, the secured borrowings had a weighted average interest rate of 3.10%, which ranged from 0.24% to 6.15% with maturities ranging from 2015 through 2028. Set forth below are borrowings and pledged assets, which are primarily owned by consolidated variable interest entities. Creditors of these entities received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT until and unless the related secured borrowings have been fully discharged. These transactions do not meet accounting requirements for sales treatment and are recorded as secured borrowings.

### Secured Borrowings and Pledged Assets Summary<sup>(1)(2)</sup> (dollars in millions)

	<u>December 31, 2014</u>		<u>December 31, 2013</u>	
	<u>Secured Borrowing</u>	<u>Pledged Assets</u>	<u>Secured Borrowing</u>	<u>Pledged Assets</u>
Rail <sup>(3)</sup>	\$ 1,179.7	\$ 1,575.7	\$ 931.0	\$ 1,163.1
Aerospace <sup>(3)</sup>	2,411.7	3,914.4	2,366.1	4,126.7
International Finance	545.0	730.6	583.5	748.1
Subtotal – Transportation & International Finance	4,136.4	6,220.7	3,880.6	6,037.9
Corporate Finance	129.7	141.6	320.2	447.4
Commercial Services	334.7	1,644.6	334.7	1,453.2
Equipment Finance	1,797.6	2,352.8	1,227.3	1,499.7
Real Estate Finance	125.0	168.0	–	–
Subtotal – North American Commercial Finance	2,387.0	4,307.0	1,882.2	3,400.3

## Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014		December 31, 2013	
Small Business Loan – Non-Strategic Portfolios	–	–	190.1	220.1
<b>Total</b>	\$ 6,523.4	\$ 10,527.7 <sup>(2)</sup>	\$ 5,952.9	\$ 9,658.3

- <sup>(1)</sup> As part of our liquidity management strategy, the Company pledges assets to secure financing transactions (which include securitizations), and for other purposes as required or permitted by law while CIT Bank also pledges assets to secure borrowings from the FHLB and FRB.
- <sup>(2)</sup> At December 31, 2014, we had pledged assets (including collateral for the FRB discount window not in the table above) of \$12.3 billion, which included \$6.3 billion of loans, \$4.8 billion of operating lease equipment (including amounts held for sale), \$1.0 billion of cash and \$0.2 billion of investment securities.
- <sup>(3)</sup> At December 31, 2014, the GSI TRS related borrowings and pledged assets, respectively, of \$1.2 billion and \$1.8 billion were included in Transportation & International Finance. The GSI TRS is described in Note 11 — Derivative Financial Instruments.

### **Table of Contents**

CIT ANNUAL REPORT 2014 **115**

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### **Variable Interest Entities (“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 these secured borrowing structures 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.

## NOTE 11 — DERIVATIVE FINANCIAL INSTRUMENTS

As part of managing economic risk and exposure to interest rate and foreign currency risk, the Company primarily enters into derivative transactions in over-the-counter markets with other financial institutions. The Company does not enter into derivative financial instruments for speculative purposes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Act, the new reporting and clearing obligations, which became effective April 10, 2013, apply to a limited number of derivative transactions executed with its lending customers in order to manage their interest rate risk.

See Note 1 — Business and Summary of Significant Accounting Policies for further description of its derivative transaction policies.

The following table presents fair values and notional values of derivative financial instruments:

**Fair and Notional Values of Derivative Financial Instruments<sup>(1)</sup>** (dollars in millions)

	December 31, 2014			December 31, 2013		
	Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount <sup>(2)</sup>	Asset Fair Value	Liability Fair Value
<b>Qualifying Hedges</b>						
Cross currency swaps – net investment hedges	\$ –	\$ –	\$ –	\$ 47.1	\$ 1.1	\$ –
Foreign currency forward contracts – cash flow hedges	–	–	–	3.8	–	(0.3)
Foreign currency forward contracts – net investment hedges	1,193.1	74.7	–	1,436.8	11.8	(23.8)
Total Qualifying Hedges	1,193.1	74.7	–	1,487.7	12.9	(24.1)
<b>Non-Qualifying Hedges</b>						
Cross currency swaps	–	–	–	131.8	6.3	–
Interest rate swaps	1,902.0	15.2	(23.1)	1,386.0	5.7	(25.4)
Written options	2,711.5	–	(2.7)	566.0	–	(1.0)
Purchased options	948.4	0.8	–	816.8	1.2	–
Foreign currency forward contracts	2,028.8	77.2	(12.0)	1,979.9	23.4	(50.8)
Total Return Swap (TRS)	1,091.9	–	(24.5)	485.2	–	(9.7)
Equity Warrants	1.0	0.1	–	1.0	0.8	–
Total Non-qualifying Hedges	8,683.6	93.3	(62.3)	5,366.7	37.4	(86.9)
Total Hedges	\$ 9,876.7	\$ 168.0	\$ (62.3)	\$ 6,854.4	\$ 50.3	\$ (111.0)

<sup>(1)</sup> Presented on a gross basis.

Item 8: Financial Statements and Supplementary Data

[Table of Contents](#)

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Total Return Swaps (“TRS”)**

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

The aggregate “notional amounts” of the total return swaps of \$1,091.9 million at December 31, 2014 and \$485.2 million at December 31, 2013 represent the aggregate unused portions under the CFL and BV facilities and constitute derivative financial instruments. These notional amounts are calculated as the maximum aggregate facility commitment amounts, currently \$2,125.0 million, less the aggregate actual adjusted qualifying borrowing base outstanding of \$1,033.1 million at December 31, 2014 and \$1,639.8 million at December 31, 2013 under the facilities. The notional amounts of the derivatives will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying asset-backed securities (ABS) to investors. If CIT funds additional ABS under the facilities, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

In April 2014, the Company sold its student loan assets and extinguished the debt of \$787 million, which was secured by these loans. This debt secured reference obligations under the TRS. The extinguishment of the debt was the primary cause of the increase of the notional amount related to the TRS.

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

- CIT’s funding costs for similar financings based on current market conditions;
- Forecasted usage of the long-dated facilities through the final maturity date in 2028; and
- Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Based on the Company’s valuation, a liability of \$25 million and \$10 million was recorded at December 31, 2014 and 2013, respectively. The change in value is recorded in Other Income in the Consolidated Statements of Operations.

**Impact of Collateral and Netting Arrangements on the Total Derivative Portfolio**

The following tables present a summary of our derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the consolidated balance sheet; the net amounts presented in the consolidated balance sheet; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the amount of cash collateral received or pledged. Substantially all of the derivative transactions are under an International Swaps and Derivatives Association (“ISDA”) agreement.

**Offsetting of Derivative Assets and Liabilities** (dollars in millions)

Gross Amount of Recognized Assets (Liabilities)	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount Presented in the Consolidated Balance Sheet	Gross Amounts not offset in the Consolidated Balance Sheet		Net Amount
			Derivative Financial Instruments <sup>(1)</sup>	Cash Collateral Pledged/ (Received) <sup>(1)(2)</sup>	

**Gross Amounts not  
offset in the  
Consolidated Balance Sheet**

December 31, 2014						
Derivative assets	\$ 168.0	\$ –	\$ 168.0	\$(13.6)	\$(137.3)	\$ 17.1
Derivative liabilities	(62.3)	–	(62.3)	13.6	8.7	(40.0)
December 31, 2013						
Derivative assets	\$ 50.3	\$ –	\$ 50.3	\$(33.4)	\$ (5.0)	\$ 11.9
Derivative liabilities	(111.0)	–	(111.0)	33.4	41.0	(36.6)

<sup>(1)</sup> The Company's derivative transactions are governed by ISDA agreements that allow for net settlements of certain payments as well as offsetting of all contracts ("Derivative Financial Instruments") with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. We believe our ISDA agreements meet the definition of a master netting arrangement or similar agreement for purposes of the above disclosure. In conjunction with the ISDA agreements, the Company has entered into collateral arrangements with its counterparties which provide for the exchange of cash depending on the change in the market valuation of the derivative contracts outstanding. Such collateral is available to be applied in settlement of the net balances upon an event of default by one of the counterparties.

<sup>(2)</sup> Collateral pledged or received is included in Other assets or Other liabilities, respectively.

## **Table of Contents**

CIT ANNUAL REPORT 2014 **117**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the impact of derivatives on the statements of operations:

### **Derivative Instrument Gains and Losses (dollars in millions)**

<b>Contract Type</b>	<b>Gain / (Loss) Recognized</b>	<b>Years Ended December 31,</b>		
		<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Qualifying Hedges</b>				
Foreign currency forward contracts – cash flow hedges	Other income	\$ –	\$ 0.7	\$ 1.1
Total Qualifying Hedges		–	0.7	1.1
<b>Non Qualifying Hedges</b>				
Cross currency swaps	Other income	4.1	11.5	(10.5)
Interest rate swaps	Other income	7.2	19.1	1.2
Interest rate options	Other income	(2.4)	–	(0.7)
Foreign currency forward contracts	Other income	118.1	(12.1)	(23.7)
Equity warrants	Other income	(0.7)	0.8	(0.3)

		Years Ended December 31,		
	Other income			
Total Return Swap (TRS)	(14.8)	(3.9)	(5.8)	
Total Non-qualifying Hedges	111.5	15.4	(39.8)	
<b>Total derivatives – income statement impact</b>	<b>\$ 111.5</b>	<b>\$ 16.1</b>	<b>\$ (38.7)</b>	

The following table presents the changes in AOCI relating to derivatives:

**Changes in AOCI Relating to Derivatives (dollars in millions)**

Contract Type	Derivatives- effective portion reclassified from AOCI to income	Hedge effectiveness recorded directly to income	Total income statement impact	Derivatives- effective portion recorded in OCI	Total change in OCI for period
<b>Year Ended December 31, 2014</b>					
Foreign currency forward contracts – cash flow hedges	\$ –	\$ –	\$ –	\$ 0.2	\$ 0.2
Foreign currency forward contracts – net investment hedges	(18.1)	–	(18.1)	111.1	129.2
Cross currency swaps – net investment hedges	–	–	–	1.1	1.1
<b>Total</b>	<b>\$ (18.1)</b>	<b>\$ –</b>	<b>\$ (18.1)</b>	<b>\$ 112.4</b>	<b>\$ 130.5</b>
<b>Year Ended December 31, 2013</b>					
Foreign currency forward contracts – cash flow hedges	\$ 0.7	\$ –	\$ 0.7	\$ 0.6	\$ (0.1)
Foreign currency forward contracts – net investment hedges	(7.7)	–	(7.7)	5.8	13.5
Cross currency swaps – net investment hedges	(0.1)	–	(0.1)	10.0	10.1
<b>Total</b>	<b>\$ (7.1)</b>	<b>\$ –</b>	<b>\$ (7.1)</b>	<b>\$ 16.4</b>	<b>\$ 23.5</b>
<b>Year Ended December 31, 2012</b>					
Foreign currency forward contracts – cash flow hedges	\$ 1.1	\$ –	\$ 1.1	\$ 1.7	\$ 0.6
Foreign currency forward contracts – net investment hedges	(4.1)	–	(4.1)	(59.4)	(55.3)
Cross currency swaps – net investment hedges	–	–	–	(12.9)	(12.9)
<b>Total</b>	<b>\$ (3.0)</b>	<b>\$ –</b>	<b>\$ (3.0)</b>	<b>\$ (70.6)</b>	<b>\$ (67.6)</b>

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

**118** CIT ANNUAL REPORT 2014



## NOTE 12 — OTHER LIABILITIES

The following table presents components of other liabilities:

**Other Liabilities** (dollars in millions)

	December 31, 2014	December 31, 2013
Equipment maintenance reserves	\$ 960.4	\$ 904.2
Accrued expenses and accounts payable	478.3	478.1
Security and other deposits	368.0	227.4
Current taxes payable and deferred taxes	319.1	179.8
Accrued interest payable	243.7	247.1
Valuation adjustment relating to aerospace commitments	121.2	137.5
Other <sup>(1)</sup>	398.1	490.2
Total other liabilities	\$ 2,888.8	\$ 2,664.3

<sup>(1)</sup> Other consists of other taxes, property tax liabilities and other miscellaneous liabilities.

## NOTE 13 — FAIR VALUE

**Fair Value Hierarchy**

The Company is required to report fair value measurements for specified classes of assets and liabilities. See Note 1 — “Business and Summary of Significant Accounting Policies” for fair value measurement policy.

The Company characterizes inputs in the determination of fair value according to the fair value hierarchy. The fair value of the Company’s assets and liabilities where the measurement objective specifically requires the use of fair value are set forth in the tables below:

**Assets and Liabilities Measured at Fair Value on a Recurring Basis** (dollars in millions)

	Total	Level 1	Level 2	Level 3
<b>December 31, 2014</b>				
<b>Assets</b>				
Debt Securities AFS	\$ 1,116.5	\$ 212.3	\$ 904.2	\$ —
Equity Securities AFS	14.0	14.0	—	—
Trading assets at fair value – derivatives	93.3	—	93.3	—
Derivative counterparty assets at fair value	74.7	—	74.7	—
Total	\$ 1,298.5	\$ 226.3	\$ 1,072.2	\$ —
<b>Liabilities</b>				
Trading liabilities at fair value – derivatives	\$ (62.3)	\$ —	\$ (35.7)	\$ (26.6)
Derivative counterparty liabilities at fair value	—	—	—	—
Total	\$ (62.3)	\$ —	\$ (35.7)	\$ (26.6)
<b>December 31, 2013</b>				
<b>Assets</b>				
Debt Securities AFS	\$ 1,487.8	\$ 675.9	\$ 811.9	\$ —
Equity Securities AFS	13.7	13.7	—	—
Trading assets at fair value – derivatives	37.4	—	37.4	—
Derivative counterparty assets at fair value	12.9	—	12.9	—

Edgar Filing: CIT GROUP INC - Form 10-K

	Total	Level 1	Level 2	Level 3
Total	\$ 1,551.8	\$ 689.6	\$ 862.2	\$ -
<b>Liabilities</b>				
Trading liabilities at fair value – derivatives	\$ (86.9)	\$ -	\$ (77.2)	\$ (9.7)
Derivative counterparty liabilities at fair value	(24.1)	-	(24.1)	-
Total	\$ (111.0)	\$ -	\$ (101.3)	\$ (9.7)

**Table of Contents**

CIT ANNUAL REPORT 2014 119

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents financial instruments for which a non-recurring change in fair value has been recorded:

**Assets Measured at Fair Value on a Non-recurring Basis** (dollars in millions)

	Fair Value Measurements at Reporting Date Using:				Total Gains and (Losses)
	Total	Level 1	Level 2	Level 3	
<b>Assets</b>					
<b>December 31, 2014</b>					
Assets Held for Sale	\$949.6	\$ -	\$ -	\$949.6	\$(73.6)
Impaired loans	13.2	-	-	13.2	(4.9)
Total	\$962.8	\$ -	\$ -	\$962.8	\$(78.5)
<b>December 31, 2013</b>					
Assets Held for Sale	\$731.1	\$ -	\$ -	\$731.1	\$(59.4)
Impaired loans	18.5	-	-	18.5	(1.6)
Total	\$749.6	\$ -	\$ -	\$749.6	\$(61.0)

Loans are transferred from held for investment (“HFI”) to Assets held for sale (“HFS”) at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off, if applicable. Once classified as HFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance.

Impaired finance receivables of \$500,000 or greater that are placed on non-accrual status are subject to periodic individual review in conjunction with the Company’s ongoing problem loan management (PLM) function. 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. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract’s effective interest rate.

**Level 3 Gains and Losses**

The tables below set forth a summary of changes in the estimated fair value of the Company’s Level 3 financial assets and liabilities measured on a recurring basis:

**Changes in Fair Value of Level 3 Financial Assets and Liabilities Measured on a Recurring Basis** (dollars in millions)

	<b>Total (all derivatives)</b>
<b>December 31, 2012</b>	\$ (5.8)
Gains or losses realized/unrealized included in Other Income <sup>(1)</sup>	(3.9)
<b>December 31, 2013</b>	(9.7)
Gains or losses realized/unrealized included in Other Income <sup>(1)</sup>	(16.9)
<b>December 31, 2014</b>	\$(26.6)

<sup>(1)</sup> Valuation of the derivatives related to the GSI facilities and written options on certain CIT Bank CDs.

**Item 8: Financial Statements and Supplementary Data****Table of Contents**

120 CIT ANNUAL REPORT 2014

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying and estimated fair values of financial instruments presented below exclude leases and certain other assets and liabilities, which are not required for disclosure.

**Financial Instruments** (dollars in millions)

	December 31, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Derivative assets at fair value – non-qualifying hedges	\$ 93.3	\$ 93.3	\$ 37.4	\$ 37.4
Derivative counterparty assets at fair value	74.7	74.7	12.9	12.9
Assets held for sale (excluding leases)	67.0	67.2	415.2	416.4
Loans (excluding leases) <sup>(1)</sup>	14,379.5	14,076.2	13,955.5	14,017.7
Securities purchased under agreements to resell	650.0	650.0	–	–
Investment securities	1,550.3	1,558.3	2,630.7	2,629.2
Other assets subject to fair value disclosure and unsecured counterparty receivables <sup>(2)</sup>	886.2	886.2	586.5	586.5
<b>Liabilities</b>				
Deposits <sup>(3)</sup>	(15,891.4)	(16,105.7)	(12,565.0)	(12,751.9)
	(62.3)	(62.3)	(86.9)	(86.9)

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014		December 31, 2013	
Derivative liabilities at fair value – non-qualifying hedges				
Derivative counterparty liabilities at fair value	–	–	(24.1)	(24.1)
Long-term borrowings <sup>(3)</sup>	(18,657.9)	(19,244.4)	(18,693.1)	(19,340.8)
Credit balances of factoring clients <sup>(1)</sup>	(1,622.1)	(1,622.1)	(1,336.1)	(1,336.1)
Other liabilities subject to fair value disclosure <sup>(4)</sup>	(2,066.8)	(2,066.8)	(1,919.1)	(1,919.1)

<sup>(1)</sup> At December 31, 2014, the credit balances of factoring clients, which was previously reflected as an offset to "Loans", is separately disclosed in the Liabilities section of the table above and utilize Level 3 inputs. A corresponding reclassification was made to 2013 classification to conform to the current year presentation.

<sup>(2)</sup> Other assets subject to fair value disclosure primarily include accrued interest receivable and miscellaneous receivables. These assets have carrying values that approximate fair value generally due to the short-term nature and are classified as level 3. The unsecured counterparty receivables primarily consist of amounts owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to asset-backed securities underlying the GSI Facilities.

<sup>(3)</sup> Deposits and long-term borrowings include accrued interest, which is included in "Other liabilities" in the Balance Sheet.

<sup>(4)</sup> Other liabilities subject to fair value disclosure include accounts payable, accrued liabilities, customer security and maintenance deposits and miscellaneous liabilities. The fair value of these approximate carrying value and are classified as level 3.

Assumptions used to value financial instruments are set forth below:

**Derivatives** – The estimated fair values of derivatives were calculated internally using observable market data and represent the net amount receivable or payable to terminate, taking into account current market rates, which represent Level 2 inputs, except for the TRS derivative and written options on certain CIT Bank CDs that utilized Level 3 inputs. See *Note 11 — Derivative Financial Instruments* for notional principal amounts and fair values.

**Assets held for sale** – Assets held for sale are recorded at the lower of cost or fair value on the balance sheet. Most of the assets are subject to a binding contract, current letter of intent or other third-party valuation, which are Level 3 inputs. For the remaining assets, the fair value is generally determined using internally generated valuations or discounted cash flow analysis, which are considered Level 3 inputs. Commercial loans are generally valued individually, while small-ticket commercial loans are valued on an aggregate portfolio basis.

**Loans** – Of the loan balance above, approximately \$1.6 billion and \$1.3 billion at December 31, 2014 and 2013, respectively, was valued using Level 2 inputs. As there is no liquid secondary market for the other loans in the Company's portfolio, the fair value is estimated based on discounted cash flow analyses which use Level 3 inputs at both December 31, 2014 and 2013. In addition to the characteristics of the underlying contracts, key inputs to the analysis include interest rates, prepayment rates, and credit spreads. For the commercial loan portfolio, the market based credit spread inputs are derived from instruments with comparable credit risk characteristics obtained from independent third party vendors. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of the loans. The fair value of loans at December 31, 2014 was \$14.1 billion, which is 97.9% of carrying value. The fair value of loans at December 31, 2013 was \$14.0 billion, which was 100.4% of carrying value.

**Impaired Loans** – The value of impaired loans is estimated using the fair value of collateral (on an orderly liquidation basis) if the loan is collateralized, or the present value of expected cash flows utilizing the current market rate for such loan. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of impaired loans relative to contractual amounts owed (unpaid principal balance or "UPB") from customers. As of December 31, 2014, the UPB related to impaired loans, including loans for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality), totaled \$85.3 million. Including related allowances, these loans are carried at \$45.1 million, or 53% of UPB. Of these amounts, \$29.2 million and

\$21.2 million of UPB and carrying value relate to loans with no specific allowance. The difference between UPB and carrying value reflects cumulative charge-offs on accounts remaining in process of collection, FSA discounts and allowances. See *Note 3 — Loans* for more information.

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 121

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*Securities purchased under agreements to resell* – The estimated fair values of securities purchased under agreements to resell were calculated internally based on discounted cash flows that utilize observable market rates for the applicable maturity and which represent Level 2 inputs.

*Investment Securities* – Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1 or Level 2 inputs. Debt securities classified as AFS included investments in U.S. Treasury and federal government agency securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. Certain equity securities classified as AFS were valued using Level 1 inputs, primarily quoted prices in active markets, while other equity securities used Level 2 inputs, due to being less frequently traded or having limited quoted market prices. Debt securities classified as HTM are securities that the Company has both the ability and the intent to hold until maturity and are carried at amortized cost and periodically assessed for OTTI, with the cost basis reduced when impairment is deemed to be other-than-temporary. Non-marketable equity investments are generally recorded under the cost or equity method of accounting and are periodically assessed for OTTI, with the net asset values reduced when impairment is deemed to be other-than-temporary. For investments in limited equity partnership interests, we use the net asset value provided by the fund manager as an appropriate measure of fair value.

*Deposits* – The fair value of deposits was estimated based upon a present value discounted cash flow analysis. Discount rates used in the present value calculation are based on the Company's average current deposit rates for similar terms, which are Level 3 inputs.

*Long-term borrowings* – Unsecured debt of approximately \$12.0 billion par value and secured borrowings of approximately \$3.3 billion par value at December 31, 2014 and unsecured debt of approximately \$12.6 billion par value and secured borrowings of approximately \$2.4 billion par value at December 31, 2013, were valued using market inputs, which are Level 2 inputs. Where market estimates were not available for approximately \$3.2 billion and \$3.6 billion par value at December 31, 2014 and 2013, respectively, values were estimated using a discounted cash flow analysis with a discount rate approximating current market rates for issuances by CIT of similar term debt, which are Level 3 inputs.

At December 31, 2013, the Company had considered approximately \$12.6 billion par value of unsecured borrowings to be valued using Level 1 inputs. At year-end 2014, the Company determined the market liquidity for our unsecured debt does not constitute an active market in the context of measuring fair value, and that the market inputs used to estimate fair value should result in our unsecured debt being classified as Level 2. The Company has revised the previous presentation of the fair value measurement of unsecured borrowings in the information presented above for this immaterial error.

See *Note 1 – Business and Summary of Significant Accounting Policies* for further description of the Company's Fair Value policies.

#### NOTE 14 — STOCKHOLDERS' EQUITY

A roll forward of common stock activity is presented in the following table.

#### **Number of Shares of Common Stock**

	<u>Issued</u>	<u>Less Treasury</u>	<u>Outstanding</u>
Common Stock – December 31, 2012	201,283,063	(414,261)	200,868,802

Edgar Filing: CIT GROUP INC - Form 10-K

	Issued	Less Treasury	Outstanding
Restricted stock issued	873,842	–	873,842
Repurchase of common stock	–	(4,006,941)	(4,006,941)
Shares held to cover taxes on vesting restricted shares and other	–	(357,442)	(357,442)
Employee stock purchase plan participation	25,490	–	25,490
Common Stock – December 31, 2013	202,182,395	(4,778,644)	197,403,751
Restricted stock issued	913,399	–	913,399
Repurchase of common stock	–	(17,067,648)	(17,067,648)
Shares held to cover taxes on vesting restricted shares and other	–	(360,424)	(360,424)
Employee stock purchase plan participation	31,497	–	31,497
Common Stock – December 31, 2014	203,127,291	(22,206,716)	180,920,575

We declared and paid dividends totaling \$0.50 per common share during 2014. We declared and paid a \$0.10 cash dividend on our common stock during the 2013 fourth quarter. No other dividends were declared or paid in 2013.

**Accumulated Other Comprehensive Income/(Loss)**

Total comprehensive income was \$1,069.7 million for the year ended December 31, 2014, versus \$679.8 million for the year ended December 31, 2013 and a comprehensive loss of \$587.4 million for the year ended December 31, 2012, including accumulated other comprehensive loss of \$133.9 million and \$73.6 million at December 2014 and 2013, respectively.

The following table details the components of Accumulated Other Comprehensive Loss, net of tax:

**Components of Accumulated Other Comprehensive Income (Loss)** (dollars in millions)

	December 31, 2014			December 31, 2013		
	Gross Unrealized	Income Taxes	Net Unrealized	Gross Unrealized	Income Taxes	Net Unrealized
Changes in benefit plan net gain/(loss) and prior service (cost)/credit	\$ (58.7)	\$ 0.2	\$ (58.5)	\$ (24.3)	\$ 0.2	\$ (24.1)
Foreign currency translation adjustments	(75.4)	–	(75.4)	(49.4)	–	(49.4)
Changes in fair values of derivatives qualifying as cash flow hedges	–	–	–	(0.2)	–	(0.2)
Unrealized net gains (losses) on available for sale securities	–	–	–	0.2	(0.1)	0.1
Total accumulated other comprehensive loss	\$ (134.1)	\$ 0.2	\$ (133.9)	\$ (73.7)	\$ 0.1	\$ (73.6)

**Item 8:** Financial Statements and Supplementary Data

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table details the changes in the components of Accumulated Other Comprehensive Income (Loss).

**Accumulated Other Comprehensive Income (Loss)** (dollars in millions)

	Changes in benefit plan net gain (loss) and prior service (cost) credit	Foreign currency translation adjustments	Unrealized net gains (losses) on available for sale securities	Changes in fair values of derivatives qualifying as cash flow hedges	Total accumulated other comprehensive income (loss) ("AOCI")
<b>Balance as of December 31, 2012</b>	\$ (43.1)	\$ (36.6)	\$ 2.1	\$ (0.1)	\$ (77.7)
AOCI activity before reclassifications	19.2	(21.2)	(2.8)	0.6	(4.2)
Amounts reclassified from AOCI	(0.2)	8.4	0.8	(0.7)	8.3
Net current period AOCI	19.0	(12.8)	(2.0)	(0.1)	4.1
<b>Balance as of December 31, 2013</b>	\$ (24.1)	\$ (49.4)	\$ 0.1	\$ (0.2)	\$ (73.6)
AOCI activity before reclassifications	(42.5)	(41.8)	(0.6)	0.2	(84.7)
Amounts reclassified from AOCI	8.1	15.8	0.5	—	24.4
Net current period AOCI	(34.4)	(26.0)	(0.1)	0.2	(60.3)
<b>Balance as of December 31, 2014</b>	\$ (58.5)	\$ (75.4)	\$ —	\$ —	\$ (133.9)

**Other Comprehensive Income/(Loss)**

The amounts included in the Statement of Comprehensive Income (Loss) are net of income taxes.

The changes in benefit plans net gain/(loss) and prior service (cost)/credit reclassification adjustments impacting net income was \$(8.1) million in 2014, \$0.2 million for 2013 and \$1.4 million for 2012. The change in income taxes associated with changes in benefit plans net gain/(loss) and prior service (cost)/credit was insignificant for 2014 and 2013, and was \$0.2 million for 2012.

Foreign currency translation reclassification adjustments impacting net income were \$15.8 million for 2014, \$8.4 million for 2013 and none for 2012. There were no income taxes associated with foreign currency translation adjustments for 2014, 2013 and 2012.

Reclassification adjustments impacting net income for unrealized gains (losses) on available for sale securities were \$0.5 million in 2014, \$0.8 million in 2013 and not significant for 2012. The change in income taxes associated with net unrealized gains on available for sale securities was \$0.2 million for 2014, \$1.3 million for 2013, and \$(1.0) million for 2012.

Reclassification adjustments impacting net income related to changes in fair value of derivatives qualifying as cash flow hedges were not significant for 2014, 2013 and 2012. There were no income taxes associated with changes in fair values of derivatives qualifying as cash flow hedges for 2014, 2013 and 2012.

The Company has operations in Canada and other countries. The functional currency for foreign operations is generally the local currency. The value of assets and liabilities of these operations is translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rates during the year. The resulting foreign currency translation gains and losses, as well as offsetting gains and losses on hedges of net investments in foreign operations, are reflected in AOCI. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency are recorded in Other Income.

**Years Ended December 31,**

2014

2013

Years Ended December 31,

	Gross Amount		Tax		Net Amount	
	Gross Amount	Tax	Net Amount	Gross Amount	Tax	Net Amount
<b>Changes in benefit plan net gain/(loss) and prior service (cost)/credit</b>						
Gains (Losses)	\$ 8.1	\$ —	\$ 8.1	\$ (0.2)	\$ —	\$ (0.2)
<b>Foreign currency translation adjustments</b>						
Gains (Losses)	15.8	—	15.8	8.4	—	8.4
<b>Net unrealized gains (losses) on available for sale securities</b>						
Gains (Losses)	0.8	(0.3)	0.5	1.3	(0.5)	0.8
<b>Changes in fair value of derivatives qualifying as cash flow hedges</b>						
Gains (Losses)	—	—	—	(0.7)	—	(0.7)
<b>Total Reclassifications out of AOCI</b>	<b>\$ 24.7</b>	<b>\$ (0.3)</b>	<b>\$ 24.4</b>	<b>\$ 8.8</b>	<b>\$ (0.5)</b>	<b>\$ 8.3</b>

**Table of Contents**

CIT ANNUAL REPORT 2014 123

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 15 — REGULATORY CAPITAL

The Company and the Bank are each subject to various regulatory capital requirements administered by the Federal Reserve Bank (“FRB”) and the Federal Deposit Insurance Corporation (“FDIC”).

Quantitative measures established by regulation to ensure capital adequacy require that the Company and the Bank each maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets, subject to any agreement with regulators to maintain higher capital levels.

The calculation of the Company’s regulatory capital ratios are subject to review and consultation with the FRB, which may result in refinements to amounts reported at December 31, 2014.

**Tier 1 Capital and Total Capital Components** (dollars in millions)

	CIT		CIT Bank	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
<b>Tier 1 Capital</b>				
Total stockholders’ equity <sup>1)</sup>	\$ 9,068.9	\$ 8,838.8	\$ 2,716.4	\$ 2,596.6
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital and qualifying noncontrolling interest	53.0	24.2	(0.2)	—
Adjusted total equity	9,121.9	8,863.0	2,716.2	2,596.6



Edgar Filing: CIT GROUP INC - Form 10-K

	CIT		CIT Bank	
Less: Goodwill <sup>(2)</sup>	(571.3)	(338.3)	(167.8)	–
Disallowed deferred tax assets	(416.8)	(26.6)	–	–
Disallowed intangible assets <sup>(2)</sup>	(25.7)	(20.3)	(12.1)	–
Investment in certain subsidiaries	(36.7)	(32.3)	–	–
Other Tier 1 components <sup>(3)</sup>	(4.1)	(6.0)	–	–
Tier 1 Capital	8,067.3	8,439.5	2,536.3	2,596.6
<b>Tier 2 Capital</b>				
Qualifying allowance for credit losses and other reserves <sup>(4)</sup>	381.8	383.9	245.1	193.6
Less: Investment in certain subsidiaries	(36.7)	(32.3)	–	–
Other Tier 2 components <sup>(5)</sup>	–	0.1	0.1	–
Total qualifying capital	\$ 8,412.4	\$ 8,791.2	\$ 2,781.5	\$ 2,790.2
Risk-weighted assets	\$55,480.9	\$50,571.2	\$19,552.3	\$15,451.9
<b>Total Capital (to risk-weighted assets):</b>				
Actual	15.2%	17.4%	14.2%	18.1%
Required Ratio for Capital Adequacy Purposes to be well capitalized	10.0%	10.0%	10.0%	10.0%
<b>Tier 1 Capital (to risk-weighted assets):</b>				
Actual	14.5%	16.7%	13.0%	16.8%
Required Ratio for Capital Adequacy Purposes to be well capitalized	6.0%	6.0%	6.0%	6.0%
<b>Tier 1 Leverage Ratio:</b>				
Actual	17.4%	18.1%	12.2%	16.9%
Required Ratio for Capital Adequacy Purposes	4.0%	4.0%	5.0%	5.0%

<sup>(1)</sup> See Consolidated Balance Sheets for the components of Total stockholders' equity.

<sup>(2)</sup> Goodwill and disallowed intangible assets adjustments also reflect the portion included within assets held for sale.

<sup>(3)</sup> Includes the Tier 1 capital charge for nonfinancial equity investments and the Tier 1 capital deduction for net unrealized losses on available-for-sale marketable securities (net of tax).

<sup>(4)</sup> "Other reserves" represents additional credit loss reserves for unfunded lending commitments, letters of credit, and deferred purchase agreements, all of which are recorded in Other Liabilities.

<sup>(5)</sup> Banking organizations are permitted to include in Tier 2 Capital up to 45% of net unrealized pretax gains on available-for-sale equity securities with readily determinable fair values.

The change in common stockholders' equity from December 31, 2013 was primarily driven by net income, including the benefit of the partial reversal of the valuation allowance on the deferred tax asset, less the impact of share repurchases and dividends. In addition to the changes in common stockholders' equity, regulatory capital was negatively affected by certain adjustments. During 2014, the primary changes to these balances included the noted partial reversal of the valuation allowance on the deferred

Item 8: Financial Statements and Supplementary Data

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

tax asset and increase to goodwill and intangible assets. The reversals benefited net income and stockholders' equity but had minimal impact on our regulatory capital ratios as the majority of the deferred tax asset balance is disallowed for regulatory capital purposes. The increase in goodwill and intangible assets was due to the acquisitions of Direct Capital and Nacco and is also disallowed for regulatory capital purposes.

Effective January 1, 2015, CIT became subject to the risk-based capital guidelines that are based upon the Basel Committee's final framework for strengthening capital and liquidity regulation, which was released in December 2010 and revised in June 2011 (Basel III). As it currently applies to CIT, the Basel III Final Rule: (i) introduces a new capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specifies that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the deductions from and adjustments to capital as compared to existing regulations. The Basel III Final Rule also prescribed a new approach for risk weightings that follow the Standardized approach, which applies to CIT. This approach expands the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, (ranging from 0% for U.S. government and agency securities, to as high as 1,250% for such exposures as credit-enhancing interest-only strips or unsettled security/commodity transactions.). Finally, the Basel III Final Rule established new minimum capital ratios for CET1, Tier 1 capital, and Total capital of 4.5%, 6.0% and 8.0%, respectively. The Basel III Final Rule also 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 will be implemented beginning January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. Based on our current capital structure, the overall impact on the capital ratios for CIT and the Bank are expected to be minimal.

## NOTE 16 — EARNINGS PER SHARE

The reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented below:

**Earnings Per Share** (dollars in millions, except per share amounts; shares in thousands)

	Years Ended December 31,		
	2014	2013	2012
<b>Earnings / (Loss)</b>			
Net income (loss) from continuing operations	\$ 1,077.5	\$ 644.4	\$ (535.8)
Net Income (loss) from discontinued operation	52.5	31.3	(56.5)
Net income (loss)	\$ 1,130.0	\$ 675.7	\$ (592.3)
<b>Weighted Average Common Shares Outstanding</b>			
Basic shares outstanding	188,491	200,503	200,887
Stock-based awards <sup>(1)</sup>	972	1,192	—
Diluted shares outstanding	189,463	201,695	200,887
<b>Basic Earnings Per common share data</b>			
Income (loss) from continuing operations	\$ 5.71	\$ 3.21	\$ (2.67)
Income (loss) from discontinued operation	0.28	0.16	(0.28)
Basic income (loss) per common share	\$ 5.99	\$ 3.37	\$ (2.95)
<b>Diluted Earnings Per common share data</b>			
Income (loss) from continuing operations	\$ 5.69	\$ 3.19	\$ (2.67)
Income (loss) from discontinued operation	0.27	0.16	(0.28)

Years Ended December 31,

Diluted income (loss) per common share	\$ 5.96	\$ 3.35	\$ (2.95)
--	---------	---------	-----------

<sup>(1)</sup> Represents the incremental shares from in-the-money non-qualified restricted stock awards, performance shares, and stock options. Weighted average restricted shares, performance shares and options that were out-of-the money and excluded from diluted earnings per share totaled 1.3 million, 1.1 million, and 1.5 million, for the December 31, 2014, 2013 and 2012 periods, respectively.

## Table of Contents

CIT ANNUAL REPORT 2014 125

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 17 — NON-INTEREST INCOME

The following table sets forth the components of non-interest income:

#### **Non-interest Income** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
Rental income on operating leases	\$2,093.0	\$1,897.4	\$1,900.8
Other Income:			
Factoring commissions	120.2	122.3	126.5
Gains on sales of leasing equipment	98.4	130.5	117.6
Fee revenues	93.1	101.5	86.1
Gain on investments	39.0	8.2	40.2
Gains on loan and portfolio sales	34.3	48.8	162.3
Recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale	19.8	21.9	54.3
Counterparty receivable accretion	10.7	8.6	88.7
Gains (losses) on derivatives and foreign currency exchange	(37.8)	1.0	(5.7)
Impairment on assets held for sale	(100.7)	(124.0)	(115.1)
Other revenues	28.4	62.5	59.8
Total other income	305.4	381.3	614.7
Total non-interest income	\$2,398.4	\$2,278.7	\$2,515.5

### NOTE 18 — OTHER EXPENSES

The following table sets forth the components of other expenses:

#### **Other Expenses** (dollars in millions)

Years Ended December 31,

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
	2014	2013	2012
Depreciation on operating lease equipment	\$ 615.7	\$ 540.6	\$ 513.2
Maintenance and other operating lease expenses	196.8	163.1	139.4
Operating expenses:			
Compensation and benefits	533.8	535.4	537.1
Technology	85.2	83.3	81.6
Professional fees	80.6	69.1	63.8
Net occupancy expense	35.0	35.3	36.1
Advertising and marketing	33.7	25.2	36.5
Provision for severance and facilities exiting activities	31.4	36.9	22.7
Other expenses <sup>(1)</sup>	142.1	185.0	116.2
Total operating expenses	941.8	970.2	894.0
Loss on debt extinguishments	3.5	—	61.2
Total other expenses	\$1,757.8	\$1,673.9	\$1,607.8

<sup>(1)</sup> 2013 includes \$50 million related to a tax settlement agreement with Tyco International Ltd.

**Item 8: Financial Statements and Supplementary Data**

**Table of Contents**

126 CIT ANNUAL REPORT 2014

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19 — INCOME TAXES

The following table presents the U.S. and non-U.S. components of income (loss) before provision for income taxes:

**Income (Loss) From Continuing Operations Before Provision for Income Taxes** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
U.S.	\$342.4	\$374.2	\$(1,004.3)
Non-U.S.	338.4	360.0	588.9
Income (loss) from continuing operations before provision for income taxes	\$680.8	\$734.2	\$ (415.4)

The provision for income taxes is comprised of the following:

**Provision for Income Taxes** (dollars in millions)

Edgar Filing: CIT GROUP INC - Form 10-K

	Years Ended December 31,		
	2014	2013	2012
Current federal income tax provision	\$ 0.9	\$ 0.1	\$ 1.5
Deferred federal income tax provision (benefit)	(405.6)	18.9	9.5
Total federal income tax provision (benefit)	(404.7)	19.0	11.0
Current state and local income tax provision	6.9	6.0	16.1
Deferred state and local income tax provision (benefit)	2.1	1.0	(2.1)
Total state and local income tax provision	9.0	7.0	14.0
Total international income tax provision	1.2	66.5	108.8
Total provision (benefit) for income taxes	\$ (394.5)	\$ 92.5	\$ 133.8
Continuing operations	\$ (397.9)	\$ 83.9	\$ 116.7
Discontinued operation	3.4	8.6	17.1
Total provision (benefit) for income taxes	\$ (394.5)	\$ 92.5	\$ 133.8

**Table of Contents**

CIT ANNUAL REPORT 2014 127

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation from the U.S. Federal statutory rate to the Company's actual effective income tax rate is as follows:

**Percentage of Pretax Income Years Ended December 31** (dollars in millions)

	Effective Tax Rate								
	2014			2013			2012		
	Pretax Income	Income tax expense (benefit)	Percent of pretax income	Pretax (loss)	Income tax expense (benefit)	Percent of pretax (loss)	Pretax income (loss)	Income tax expense (benefit)	Percent of pretax income
<b>Continuing Operations</b>									
Federal income tax rate	\$ 680.8	\$ 238.3	35.0%	\$ 734.2	\$ 256.9	35.0%	\$ (415.4)	\$ (145.3)	35.0%
<b>Increase (decrease) due to:</b>									
State and local income taxes, net of federal income tax benefit		9.0	1.3		6.2	0.8		13.5	(3.2)
Lower tax rates applicable to non-U.S. earnings		(99.7)	(14.6)		(97.1)	(13.2)		(152.9)	36.8
International income subject to U.S. tax		46.0	6.8		55.7	7.6		322.5	(77.7)
		(269.2)	(39.5)		0.3	—		(227.8)	54.9

Edgar Filing: CIT GROUP INC - Form 10-K

Effective Tax Rate

Unrecognized tax benefits									
Deferred income taxes on international unremitted earnings	(7.8)	(1.2)		(24.7)	(3.4)		112.0	(27.0)	
Valuation allowances	(313.3)	(46.0)		(100.6)	(13.7)		211.4	(50.9)	
International tax settlements	(1.1)	(0.2)		(11.2)	(1.5)		—	—	
Other	(0.1)	—		(1.6)	(0.2)		(16.7)	4.0	
Effective Tax Rate – Continuing Operations	\$ (397.9)	(58.4)%		\$ 83.9	11.4 %		\$ 116.7	(28.1)%	
<b>Discontinued Operation:</b>									
Federal income tax rate	\$ 55.9	\$ 19.6	35.0%	\$ 39.9	\$ 14.0	35.0%	\$ (39.4)	\$ (13.7)	35.0%
<b>Increase (decrease) due to:</b>									
State and local income taxes, net of federal income tax benefit	(0.1)	(0.1)		0.7	1.7		0.5	(1.4)	
Lower tax rates applicable to non-U.S. earnings	1.5	2.7		15.3	38.5		11.9	(30.3)	
International income subject to U.S. tax	(2.7)	(4.7)		(17.9)	(44.9)		(17.4)	44.1	
Valuation Allowances	(14.9)	(26.7)		(3.5)	(8.8)		35.8	(91.1)	
Effective Tax Rate – Discontinued Operation	3.4	6.2 %		8.6	21.5%		17.1	(43.7)%	
Total Effective Tax Rate	\$ (394.5)	(53.5)%		\$ 92.5	11.9 %		\$ 133.8	(29.4)%	

Item 8: Financial Statements and Supplementary Data

Table of Contents

128 CIT ANNUAL REPORT 2014

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities are presented below:

**Components of Deferred Income Tax Assets and Liabilities** (dollars in millions)

	December 31,	
	2014	2013
<b>Deferred Tax Assets:</b>		
Net operating loss (NOL) carry forwards	\$ 2,837.0	\$ 2,694.7
Loans and direct financing leases	48.5	166.4
Provision for credit losses	163.7	147.9
Accrued liabilities and reserves	91.7	97.2
FSA adjustments – aircraft and rail contracts	46.1	52.8
Other	145.3	114.0
Total gross deferred tax assets	3,332.3	3,273.0
<b>Deferred Tax Liabilities:</b>		
Operating leases	(1,797.6)	(1,549.3)
International unremitted earnings	(162.0)	(168.5)
Debt	(3.6)	(97.7)
Goodwill and intangibles	(62.4)	(47.3)
Other	(29.0)	(71.4)
Total deferred tax liabilities	(2,054.6)	(1,934.2)
Total net deferred tax asset before valuation allowances	1,277.7	1,338.8
Less: Valuation allowances	(1,122.4)	(1,495.3)
Net deferred tax asset (liability) after valuation allowances	\$ 155.3	\$ (156.5)

**2009 Bankruptcy**

CIT filed prepackaged voluntary petitions for relief under the U.S. bankruptcy Code on November 1, 2009 and emerged from bankruptcy on December 10, 2009. As a consequence of the bankruptcy, CIT realized cancellation of indebtedness income ("CODI"). The Internal Revenue Service Code generally requires CODI to be recognized and included in taxable income. However, if CODI is realized pursuant to a confirmed plan of reorganization, then CODI is not recognized in taxable income but instead reduces certain favorable tax attributes. CIT tax attribute reductions included a reduction to the Company's federal net operating loss carry-forwards ("NOLs") of approximately \$4.3 billion and the tax bases in its assets of \$2.8 billion.

CIT's reorganization in 2009 constituted an ownership change under Section 382 of the Code, which placed an annual dollar limit on the use of the remaining pre-bankruptcy NOLs. Under the relief provision elected by the Company, Sec. 382(l)(6), the NOLs that the Company may use annually is limited to the product of a prescribed rate of return applied against the value of equity immediately after any ownership change. Based on a volume weighted average price (VWAP) determined by the Company's market trading prices between December 10, 2009 and March 31, 2010, the Company's usage of pre-bankruptcy NOLs will be limited to \$264.7 million per annum. The change from the previous reported annual limit of \$230 million, which was based on an equity value determined by the Company's opening stock price on December 10, 2009, reflects adjustments to arrive at the VWAP method reported on the tax return and agreed to by the Internal Revenue Service (IRS) during the most recent audit examination. NOLs arising in post-emergence years are not subject to this limitation absent another ownership change as defined by the IRS for U.S. tax purposes.

**Net Operating Loss Carry-forwards**

As of December 31, 2014, CIT has deferred tax assets totaling \$2.8 billion on its global NOLs. This includes a deferred tax asset of: (1) \$2.0 billion relating to its cumulative U.S. federal NOLs of \$5.7 billion, after the CODI reduction described in the paragraph above; (2) \$416 million relating to cumulative state NOLs of \$8.6 billion, and (3) \$412 million relating to cumulative international NOLs of \$3.0 billion.

Of the \$5.7 billion U.S. federal NOLs, approximately \$3.0 billion relates to the pre-emergence period subject to the Sec. 382 limitation discussed above, of which approximately \$1.0 billion is no longer subject to the limitation. Domestic taxable income was modest for the current year, primarily due to accelerated tax depreciation on the operating lease portfolios. The net increase in the

U.S. federal NOLs from the prior year balance of \$5.2 billion is primarily attributable to favorable audit adjustments coming out of the most recent IRS audit examination including the resolution of an uncertain tax position relating to the amount of CODI and corresponding NOL carry-forward adjustment consequent to the 2009 Bankruptcy. The U.S. federal NOL's will expire beginning in 2027 through 2033. \$162 million of state NOLs will expire in 2015, and while most of the international NOLs have no expiration date, a small portion will expire over various periods, with an insignificant amount expiring in 2015.

---

## **Table of Contents**

CIT ANNUAL REPORT 2014 129

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Prior to December 31, 2013, the Company had not previously recognized any tax benefit on its prior year U.S. federal and U.S. state NOLs and certain prior year international NOLs due to uncertainties related to its ability to realize its net deferred tax assets in the future. Due to these uncertainties, combined with the three years of cumulative losses by certain domestic and international reporting entities, the Company had concluded that it did not meet the criteria to recognize its net deferred tax assets, inclusive of the deferred tax assets related to the NOLs in these entities. Accordingly, the Company maintained a valuation allowance of \$1.5 billion against its net deferred tax assets at December 31, 2013. Of the \$1.5 billion valuation allowance, approximately \$1.3 billion related to domestic reporting entities (\$0.9 billion U.S. federal and \$0.4 billion U.S. state) and \$211 million related to international reporting entities.

The determination of whether or not to maintain the valuation allowances on certain reporting entities' net deferred tax assets requires significant judgment and an analysis of all positive and negative evidence to determine whether it is more likely than not that these future benefits will be realized. ASC 740-10-30-18 states that "future realization of the tax benefit of an existing deductible temporary difference or NOL carry-forward ultimately depends on the existence of sufficient taxable income within the carryback and carry-forward periods available under the tax law." As such, the Company has considered the following potential sources of taxable income in its assessment of a reporting entity's ability to recognize its net deferred tax asset:

- Taxable income in carryback years,
- Future reversals of existing taxable temporary differences (deferred tax liabilities),
- Prudent and feasible tax planning strategies, and
- Future taxable income forecasts.

During the third quarter of 2014, management concluded that it was more likely than not that the Company will generate sufficient future taxable income within the applicable carry-forward periods to realize \$375 million of its U.S. net federal deferred tax assets. This conclusion was reached after weighing all of the evidence and determining that the positive evidence outweighed the negative evidence. No discrete reduction to the valuation allowance related to the U.S. net state deferred tax assets or the capital loss carry-forwards was recorded in the fourth or any other quarter. In the U.S., the Company files a U.S. consolidated federal tax return, combined unitary state tax returns, and separate state tax returns in various jurisdictions. Thus, the tax reporting entity for U.S. federal tax purposes and U.S. state combined filing purposes is the "U.S. Affiliated Group", while the reporting entities for the separate state income tax returns are select individual affiliated group members. The positive evidence supporting this conclusion is as follows:

- The U.S. Affiliated Group transitioned into a 3-year (12 quarter) cumulative normalized income position in the third quarter, resulting in the Company's ability to significantly increase the reliance on future taxable income forecasts.
- Management's long-term forecast of future U.S. taxable income supports partial utilization of the U.S. federal NOLs prior to their expiration.
- The federal NOLs will not expire until 2027 through 2033.



The forecast of future taxable income for the Company reflects a long-term view of growth and returns that management believes is more likely than not of being realized.

For the U.S. state valuation allowance, the Company analyzed the state net operating loss carry-forwards for each reporting entity to determine the amounts that are expected to expire unused. Based on this analysis, it was determined that the existing valuation allowance was still required on the U.S. state deferred tax assets on net operating loss carry-forwards. Accordingly, no discrete adjustment was made to the U.S. State valuation allowance this quarter. The negative evidence supporting this conclusion is as follows:

- Separate State filing entities remained in a three year cumulative loss.
- State NOLs expiration periods vary in time and availability.

Additionally, during the current year, the Company reduced the U.S. federal and state valuation allowances in the normal course as the Company recognized U.S. taxable income. This taxable income reduced the deferred tax asset on NOLs, and, when combined with the increase in net deferred tax liabilities, which are mainly related to accelerated tax depreciation on the operating lease portfolios, resulted in a reduction of the valuation allowances. However, the Company retained a valuation allowance of \$1.0 billion against its U.S. net deferred tax assets at December 31, 2014. Of the \$1.0 billion domestic valuation allowance, approximately \$0.7 billion is against the deferred tax asset on the U.S. federal NOLs and \$0.3 billion is against the deferred tax asset on the U.S. state NOLs. The reduction in the valuation allowance from the prior year relates primarily to the realization of the above mentioned net deferred tax assets. However, the reduction was partially offset by an increase in the NOLs due to the aforementioned favorable IRS audit adjustments and the resolution of an uncertain tax position related to the computation of "CODI" which resulted in adjustments to the reported NOLs.

The ability to recognize the remaining deferred tax assets relating to the U.S. federal and state NOLs, and capital loss carry-forwards that continue to be subject to a valuation allowance will be evaluated on a quarterly basis to determine if there are any significant events that would affect our ability to utilize these deferred tax assets. If events are identified that affect our ability to utilize our deferred tax assets, the analysis will be updated to determine if any adjustments to the valuation allowances are required. Such events may include acquisitions that support the Company's long-term business strategies while also enabling it to accelerate the utilization of its net operating losses, as evidenced by the acquisition of Direct Capital Corporation and the announced definitive agreement and plan of merger to acquire IMB Holdco LLC, the parent company of OneWest Bank N.A. ("OneWest Bank").

The impact of the OneWest Bank transaction on the utilization of the Company's NOLs cannot be considered in the Company's forecast of future taxable income until the acquisition is consummated. The acquisition is expected to accelerate the utilization of the Company's NOLs and therefore management anticipates it will reverse the remaining U.S. federal valuation allowance after

**Item 8: Financial Statements and Supplementary Data**

---

**Table of Contents**

**130** CIT ANNUAL REPORT 2014

---

**CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

consummation of the acquisition. The Company is currently evaluating the impact of the acquisition on the U.S. state NOLs and expects the acquisition to utilize some portion of these amounts which would cause a partial reduction to the U.S. state valuation allowance.

## Edgar Filing: CIT GROUP INC - Form 10-K

The Company maintained a valuation allowance of \$141 million against the international reporting entities' net deferred tax assets at December 31, 2014. The reduction from the prior year is primarily related to a \$44 million valuation allowance reversal for one international reporting entity. During the fourth quarter of 2014, the Company concluded that it is more likely than not that this reporting entity will generate sufficient future taxable income within the indefinite NOL carry-forward period to utilize its net deferred tax asset. The future taxable income was driven by the receipt of favorable tax ruling, which confirmed that it could utilize its NOLs by generating taxable income through aircraft leasing.

In the evaluation process related to the net deferred tax assets of the Company's other international reporting entities, uncertainties surrounding the international business plans, the recent international platform rationalizations, and the "cumulative losses in recent years" have made it challenging to reliably project future taxable income. The primary inputs for the forecast of future taxable income will continue to be identified as the business plans for the international operations evolve, and potential tax planning strategies are identified. Thus, as of this reporting period, the negative evidence continues to outweigh the positive evidence, and the Company continues to maintain a full valuation allowance on these entities' net deferred tax assets.

### Indefinite Reinvestment Assertion

In 2011, management decided to no longer assert its intent to indefinitely reinvest its international earnings, except for international subsidiaries in select jurisdictions. This decision was driven by events during the course of the year that culminated in Management's conclusion that it may need to repatriate international earnings to address certain long-term investment and funding strategies. If the undistributed earnings of the select international subsidiaries were distributed, additional domestic and international income tax liabilities would result. However, it is not practicable to determine the amount of such taxes.

As of December 31, 2014, Management continues to maintain the position with regards to its assertion. During 2014, the Company increased its deferred tax liabilities for international withholding taxes by \$0.5 million and reduced the domestic deferred income tax liabilities by \$7.1 million. As of December 31, 2014, the Company has recorded \$1.9 million for international withholding taxes and \$160.1 million for domestic deferred income tax liabilities which represents the Company's best estimate of the tax cost associated with the potential future repatriation of undistributed earnings of its international subsidiaries. The \$160.1 million of cumulative deferred income taxes were offset by a corresponding adjustment to the domestic valuation allowance resulting in no impact to the income tax provision.

### Liabilities for Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

#### Unrecognized Tax Benefits (dollars in millions)

	<b>Liabilities for Unrecognized Tax Benefits</b>	<b>Interest /Penalties</b>	<b>Grand Total</b>
Balance at December 31, 2013	\$ 320.1	\$ 13.3	\$ 333.4
Additions for tax positions related to current year	8.5	0.8	9.3
Additions for tax positions related to prior years	1.0	0.8	1.8
Income Tax Audit Settlements	(271.2)	(0.8)	(272.0)
Foreign currency revaluation	(4.7)	(0.8)	(5.5)
Balance at December 31, 2014	\$ 53.7	\$ 13.3	\$ 67.0

During the year ended December 31, 2014, the Company recorded a net \$266.4 million reduction on uncertain tax positions, including interest, penalties, and net of a \$5.5 million decrease attributable to foreign currency revaluation. The majority of the net reduction related to prior years' uncertain federal and state tax positions and primarily comprised of two items: 1) \$270.4 million tax benefit associated with an uncertain tax position taken on a prior-year federal and state tax returns, on which the uncertainty no longer exists. 2) \$8.8 million increase associated with an uncertain tax position taken on a pre-acquisition tax status filing position by Direct Capital. The \$270.4 million tax benefit was fully offset by a corresponding increase to the domestic valuation allowance, while the \$8.8 million increase was fully offset by corresponding decrease to goodwill included in the purchase price accounting adjustments related to the Direct Capital acquisition.

## Edgar Filing: CIT GROUP INC - Form 10-K

During the year ended December 31, 2014, the Company recognized zero net income tax expense relating to interest and penalties on its uncertain tax positions, net of a \$0.8 million decrease attributable to foreign currency translation. As of December 31, 2014, the accrued liability for interest and penalties is \$13.3 million. The Company recognizes accrued interest and penalties on unrecognized tax benefits in income tax expense.

The entire \$53.7 million of unrecognized tax benefits at December 31, 2014 would lower the Company's effective tax rate, if realized. The Company believes that the total unrecognized tax benefits may decrease, in the range of \$10 to \$15 million, due to the settlements of audits and the expiration of various statutes of limitations prior to December 31, 2015.

---

### **Table of Contents**

CIT ANNUAL REPORT 2014 131

---

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **Income Tax Audits**

During the fourth quarter of 2014, the Company substantially settled with the Internal Revenue Service on examinations for taxable years ending December 31, 2008 through December 31, 2010 and received the final Revenue Agent Report dated January 15, 2015. The tentative audit settlement resulted in no additional regular or alternative minimum tax liability due. A new IRS examination will commence this year for the taxable years ending December 31, 2011 through December 31, 2013.

On April 3, 2012, the Company and Internal Revenue Service (IRS) concluded the audit examination of the Company's U.S. federal income tax returns for the taxable years ended December 31, 2005 through December 31, 2007. The audit settlement resulted in the imposition of a \$1.4 million alternative minimum tax that can be used in the future as a credit to offset the Company's regular tax liability.

The Company and its subsidiaries are under examination in various states, provinces and countries for years ranging from 2005 through 2013. Management does not anticipate that these examination results will have any material financial impact.

### NOTE 20 — RETIREMENT, POSTRETIREMENT AND OTHER BENEFIT PLANS

CIT provides various benefit programs, including defined benefit retirement and postretirement plans, and defined contribution savings incentive plans. A summary of major plans is provided below.

### **Retirement and Postretirement Benefit Plans**

#### **Retirement Benefits**

CIT has both funded and unfunded noncontributory defined benefit pension plans covering certain U.S. and non-U.S. employees, each of which is designed in accordance with practices and regulations in the related countries. Retirement benefits under defined benefit pension plans are based on an employee's age, years of service and qualifying compensation.

The Company's largest plan is the CIT Group Inc. Retirement Plan (the "Plan"), which accounts for 79.4% of the Company's total pension projected benefit obligation at December 31, 2014.

The Company also maintains a U.S. noncontributory supplemental retirement plan, the CIT Group Inc. Supplemental Retirement Plan (the "Supplemental Plan"), for participants whose benefit in the Plan is subject to Internal Revenue Code limitations, and an executive retirement plan, which has been closed to new members since 2006. In aggregate, these two plans account for 18.9% of the total pension projected benefit obligation at December 31, 2014.

On October 16, 2012, the Board of Directors of the Company approved amendments to freeze the benefits earned under both the Plan and the Supplemental Plan. These actions became effective on December 31, 2012. These changes resulted in a reduction in the pension liability, a gain to AOCI and eliminated future service cost accruals for these plans. The freeze discontinued credit for

## Edgar Filing: CIT GROUP INC - Form 10-K

services after December 31, 2012; however, accumulated balances under the cash balance formula continue to receive periodic interest, subject to certain government limits. The interest credit was 3.63%, 2.47%, and 2.67% for the years ended December 31, 2014, 2013, and 2012, respectively. Participants under the traditional formula accrued a benefit through December 31, 2012, after which the benefit amount was frozen, and no further credits will be earned.

Employees generally become vested in both plans after completing three years of service, or upon attaining normal retirement age, as defined. Upon termination or retirement, vested participants under the "cash balance" formula have the option of receiving their benefit in a lump sum, deferring their payment to age 65 or converting their vested benefit to an annuity. Traditional formula participants can only receive an annuity upon a qualifying retirement.

### Postretirement Benefits

CIT provides healthcare and life insurance benefits to eligible retired employees. U.S. retiree healthcare and life insurance benefits account for 45.4% and 50.3% of the total postretirement benefit obligation, respectively. For most eligible retirees, healthcare is contributory and life insurance is non-contributory. The U.S. retiree healthcare plan pays a stated percentage of most medical expenses, reduced by a deductible and any payments made by the government and other programs. The U.S. retiree healthcare benefit includes a maximum limit on CIT's share of costs for employees who retired after January 31, 2002. All postretirement benefit plans are funded on a pay-as-you-go basis.

On October 16, 2012, the Board of Directors of the Company approved amendments that discontinue benefits under CIT's postretirement benefit plans. These changes resulted in a gain to AOCI and a reduction of future service cost accruals for these plans. CIT no longer offers retiree medical, dental and life insurance benefits to those who did not meet the eligibility criteria for these benefits by December 31, 2013. Employees who met the eligibility requirements for retiree health insurance by December 31, 2013 will be offered retiree medical and dental coverage upon retirement. To receive retiree life insurance, employees must have met the eligibility criteria for retiree life insurance by December 31, 2013 and must have retired from CIT on or before December 31, 2013.

## Item 8: Financial Statements and Supplementary Data

### Table of Contents

132 CIT ANNUAL REPORT 2014

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Obligations and Funded Status

The following tables set forth changes in benefit obligation, plan assets, funded status and net periodic benefit cost of the retirement plans and postretirement plans:

#### Obligations and Funded Status (dollars in millions)

	Retirement Benefits		Post-Retirement Benefits	
	2014	2013	2014	2013
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 452.4	\$ 480.8	\$ 38.8	\$ 42.3
Service cost	0.2	0.5	–	0.1
Interest cost	20.2	17.8	1.6	1.6
Plan amendments, curtailments, and settlements	(29.5)	(1.7)	–	0.6
Actuarial loss/(gain)	50.4	(20.1)	0.8	(2.8)

Edgar Filing: CIT GROUP INC - Form 10-K

	Retirement Benefits		Post-Retirement Benefits	
Benefits paid	(25.8)	(25.3)	(4.3)	(4.7)
Other <sup>(1)</sup>	(4.3)	0.4	1.7	1.7
Benefit obligation at end of year	463.6	452.4	38.6	38.8
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of period	356.9	346.3	–	–
Actual return on plan assets	28.5	16.0	–	–
Employer contributions	33.7	21.1	2.5	3.0
Plan settlements	(29.3)	(1.7)	–	(0.1)
Benefits paid	(25.8)	(25.3)	(4.3)	(4.7)
Other <sup>(1)</sup>	(4.1)	0.5	1.8	1.8
Fair value of plan assets at end of period	359.9	356.9	–	–
Funded status at end of year <sup>(2)(3)</sup>	\$ (103.7)	\$ (95.5)	\$ (38.6)	\$ (38.8)

<sup>(1)</sup> Consists of the following: plan participants' contributions and currency translation adjustments.

<sup>(2)</sup> These amounts were recognized as liabilities in the Consolidated Balance Sheet at December 31, 2014 and 2013.

<sup>(3)</sup> Company assets of \$91.0 million and \$95.7 million as of December 31, 2014 and December 31, 2013, respectively, related to the non-qualified U.S. executive retirement plan obligation are not included in plan assets but related liabilities are in the benefit obligation.

During 2013, the Company entered into a buy-in/buy-out transaction in the United Kingdom with an insurance company that resulted in a full buy-out of the related pension plan in 2014. This contract did not meet the settlement requirements in ASC 715, *Compensation – Retirement Benefits* as of the year ended December 31, 2013 and resulted in an \$8.0 million actuarial loss that is included in the net actuarial gain of \$20.1 million as of December 31, 2013, as the plan's pension liabilities were valued at their buy-in value basis. The loss of \$8.0 million was recognized in the Statement of Operations during 2014 when the transaction met settlement accounting requirements.

The accumulated benefit obligation for all defined benefit pension plans was \$463.1 million and \$449.8 million, at December 31, 2014 and 2013, respectively. Information for those defined benefit plans with an accumulated benefit obligation in excess of plan assets is as follows:

**Defined Benefit Plans with an Accumulated Benefit Obligation in Excess of Plan Assets** (dollars in millions)

	December 31,	
	2014	2013
Projected benefit obligation	\$ 463.6	\$ 421.4
Accumulated benefit obligation	463.1	418.8
Fair value of plan assets	359.9	325.9

**Table of Contents**

CIT ANNUAL REPORT 2014 133

Edgar Filing: CIT GROUP INC - Form 10-K

The net periodic benefit cost and other amounts recognized in AOCI consisted of the following:

**Net Periodic Benefit Costs and Other Amounts** (dollars in millions)

	Retirement Benefits			Post-Retirement Benefits		
	2014	2013	2012	2014	2013	2012
Service cost	\$ 0.2	\$ 0.5	\$ 14.5	\$ –	\$ 0.1	\$ 0.8
Interest cost	20.2	17.8	19.9	1.6	1.6	1.9
Expected return on plan assets	(20.8)	(18.9)	(18.4)	–	–	–
Amortization of prior service cost	–	–	–	(0.5)	(0.6)	(0.3)
Amortization of net loss/(gain)	7.5	1.0	2.1	(0.7)	(0.2)	(0.4)
Settlement and curtailment (gain)/loss	2.9	0.2	(0.6)	–	(0.3)	–
Termination benefits	–	–	0.3	–	–	–
Net periodic benefit cost	10.0	0.6	17.8	0.4	0.6	2.0
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income</b>						
Net (gain)/loss	42.6	(17.1)	(2.6)	1.0	(2.5)	0.6
Prior service cost (credit)	–	–	–	–	–	(7.7)
Amortization, settlement or curtailment recognition of net gain/(loss)	(10.4)	(1.1)	(2.2)	0.7	0.1	0.4
Amortization, settlement or curtailment recognition of prior service (cost)/credit	–	–	–	0.5	1.4	0.2
Total recognized in OCI	32.2	(18.2)	(4.8)	2.2	(1.0)	(6.5)
Total recognized in net periodic benefit cost and OCI	\$ 42.2	\$ (17.6)	\$ 13.0	\$ 2.6	\$ (0.4)	\$ (4.5)

The amounts recognized in AOCI during the year ended December 31, 2014 were net losses (before taxes) of \$32.2 million for retirement benefits. Changes in assumptions, primarily the discount rate and mortality tables, accounted for \$46.8 million of the overall net retirement benefits AOCI losses. The discount rate for the Plan and the Supplemental Plan decreased 100 basis points to 3.75% at December 31, 2014, and the rate for the executive retirement plan decreased 75 basis points to 3.75% at December 31, 2014. This decline in the discount rate accounted for \$33.5 million of the net AOCI loss for retirement benefits. Additionally, the adoption of the new Society of Actuaries' mortality table and improvement scale RP-2014/SP-2014 resulted in an increase in retirement benefit obligations of \$10.2 million. Partially offsetting these losses were the settlement of the UK pension scheme, which resulted in \$8.0 million of loss amortization and settlement charges recorded during 2014, and U.S. asset gains of \$7.7 million. The postretirement AOCI net losses (before taxes) of \$2.2 million during the year ended December 31, 2014 were primarily driven by a 75 basis point decrease in the U.S. postretirement plan discount rate from 4.50% at December 31, 2013 to 3.75% at December 31, 2014.

The amounts recognized in AOCI during the year ended December 31, 2013 were net gains (before taxes) of \$18.2 million for retirement benefits. The net retirement benefits AOCI gains were primarily driven by a reduction in benefit obligations of \$17.1 million resulting from changes in assumptions. The discount rate for the U.S. pension and postretirement plans increased by 100 basis points from 3.75% at December 31, 2012 to 4.75% at December 31, 2013 and accounted for the majority of the AOCI gains arising from assumption changes.

The postretirement AOCI net gains (before taxes) of \$1.0 million during the year ended December 31, 2013 were primarily driven by a 75 basis point increase in the discount rate from 3.75% at December 31, 2012 to 4.50% at December 31, 2013.

The plan changes approved on October 16, 2012 resulted in plan curtailments and amendments which reduced the liability for the affected plans as indicated in the table above. Each of the amended plans was re-measured at October 1, 2012 using a discount rate of 3.75%.

## Edgar Filing: CIT GROUP INC - Form 10-K

The amounts recognized in AOCI during the year ended December 31, 2012 were net gains (before taxes) of \$4.8 million for retirement benefits. The net retirement benefits AOCI gains were primarily driven by a reduction in benefit obligations of \$20.4 million resulting from the decision to freeze benefits under certain plans, an increase in asset values of \$23.8 million due to favorable asset performance, and the settlement of obligations of approximately \$8.7 million as a result of the lump sum cash out offering. These gains were largely offset by changes in assumptions, which resulted in an increase in plan obligations of approximately \$48.1 million.

The postretirement AOCI net gains (before taxes) of \$6.5 million during the year ended December 31, 2012 were primarily driven by the reduction in benefit obligations of \$8.3 million primarily due to the discontinuation of benefits under certain plans, partially offset by the impacts of assumption changes of approximately \$1.8 million.

The discount rate for the majority of the U.S. pension and postretirement plans decreased by 75 basis points from 4.50% at December 31, 2011 to 3.75% at December 31, 2012. The decrease in the discount rate assumption represents the majority of the offset to the reduction of the pension and postretirement benefit obligations driven by plan changes.

### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

134 CIT ANNUAL REPORT 2014

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

##### Assumptions

Discount rate assumptions used for pension and post-retirement benefit plan accounting reflect prevailing rates available on high-quality, fixed-income debt instruments with maturities that match the benefit obligation. The rate of compensation used in the actuarial model is based upon the Company's long-term plans for any increases, taking into account both market data and historical increases.

Expected long-term rate of return assumptions on assets are based on projected asset allocation and historical and expected future returns for each asset class. Independent analysis of historical and projected asset returns, inflation, and interest rates are provided by the Company's investment consultants and actuaries as part of the Company's assumptions process.

The weighted average assumptions used in the measurement of benefit obligations are as follows:

##### Weighted Average Assumptions

	Retirement Benefits		Post-Retirement Benefits	
	2014	2013	2014	2013
Discount rate	3.74%	4.59%	3.74%	4.50%
Rate of compensation increases	0.09%	3.03%	(1)	(1)
Health care cost trend rate				
Pre-65	(1)	(1)	7.20%	7.40%
Post-65	(1)	(1)	7.30%	7.60%
Ultimate health care cost trend rate	(1)	(1)	4.50%	4.50%
Year ultimate reached	(1)	(1)	2029	2029

## Edgar Filing: CIT GROUP INC - Form 10-K

The weighted average assumptions used to determine net periodic benefit costs are as follows:

### Weighted Average Assumptions

	Retirement Benefits		Post-Retirement Benefits	
	2014	2013	2014	2013
Discount rate	4.58%	3.81%	4.50%	3.86%
Expected long-term return on plan assets	5.74%	5.57%	(1)	(1)
Rate of compensation increases	3.03%	3.03%	(1)	3.00%

<sup>(1)</sup> Not applicable.

Healthcare rate trends have a significant effect on healthcare plan costs. The Company uses both external and historical data to determine healthcare rate trends. An increase (decrease) of one-percentage point in assumed healthcare rate trends would increase (decrease) the postretirement benefit obligation by \$1.3 million and (\$1.1 million), respectively. The service and interest cost are not material.

### Plan Assets

CIT maintains a “Statement of Investment Policies and Objectives” which specifies guidelines for the investment, supervision and monitoring of pension assets in order to manage the Company’s objective of ensuring sufficient funds to finance future retirement benefits. The asset allocation policy allows assets to be invested between 15% to 35% in Equities, 35% to 65% in Fixed-Income, 15% to 25% in Global Asset Allocations, and 5% to 10% in Hedge Funds. The asset allocation follows a Liability Driven Investing (“LDI”) strategy. The objective of LDI is to allocate assets in a manner that their movement will more closely track the movement in the benefit liability. The policy provides specific guidance on asset class objectives, fund manager guidelines and identification of prohibited and restricted transactions. It is reviewed periodically by the Company’s Investment Committee and external investment consultants.

Members of the Investment Committee are appointed by the Chief Executive Officer and include the Chief Financial Officer as the committee Chairman, and other senior executives.

There were no direct investments in equity securities of CIT or its subsidiaries included in pension plan assets in any of the years presented.

Plan investments are stated at fair value. Common stock traded on security exchanges as well as mutual funds and exchange traded funds are valued at closing market prices; when no trades are reported, they are valued at the most recent bid quotation (Level 1). Investments in Common Collective Trusts and Short Term Investment Funds are carried at fair value based upon net asset value (“NAV”) (Level 2). Funds that invest in alternative assets that do not have quoted market prices are valued at estimated fair value based on capital and financial statements received from fund managers (Level 3). Given the valuation of Level 3 assets is dependent upon assumptions and expectations, management, with the assistance of third party experts, periodically assesses the controls and governance employed by the investment firms that manage Level 3 assets.

### Table of Contents

CIT ANNUAL REPORT 2014 135

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The tables below set forth asset fair value measurements.



Edgar Filing: CIT GROUP INC - Form 10-K

**Fair Value Measurements** (dollars in millions)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Fair Value</u>
<b>December 31, 2014</b>				
Cash	\$ 5.8	\$ –	\$ –	\$ 5.8
Mutual Fund	72.0	–	–	72.0
Common Collective Trust	–	200.1	–	200.1
Common Stock	19.6	–	–	19.6
Exchange Traded Funds	25.7	–	–	25.7
Short Term Investment Fund	–	1.5	–	1.5
Partnership	–	–	9.7	9.7
Hedge Fund	–	–	25.5	25.5
Insurance Contracts	–	–	–	–
	<b>\$ 123.1</b>	<b>\$ 201.6</b>	<b>\$ 35.2</b>	<b>\$ 359.9</b>
<b>December 31, 2013</b>				
Cash	\$ 0.2	\$ –	\$ –	\$ 0.2
Mutual Fund	70.4	–	–	70.4
Common Collective Trust	–	179.3	–	179.3
Common Stock	18.1	–	–	18.1
Exchange Traded Funds	21.2	–	–	21.2
Short Term Investment Fund	–	4.1	–	4.1
Partnership	–	–	9.7	9.7
Hedge Fund	–	–	22.9	22.9
Insurance Contracts	–	–	31.0	31.0
	<b>\$ 109.9</b>	<b>\$ 183.4</b>	<b>\$ 63.6</b>	<b>\$ 356.9</b>

The table below sets forth changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2014:

**Fair Value of Level 3 Assets** (dollars in millions)

	<u>Total</u>	<u>Partnership</u>	<u>Hedge Funds</u>	<u>Insurance Contracts</u>
<b>December 31, 2013</b>	\$ 63.6	\$ 9.7	\$ 22.9	\$ 31.0
Realized and Unrealized Gains (Losses)	0.1	–	0.1	–
Purchases, sales, and settlements, net	(28.5)	–	2.5	(31.0)
Net Transfers into and/or out of Level 3	–	–	–	–
<b>December 31, 2014</b>	<b>\$ 35.2</b>	<b>\$ 9.7</b>	<b>\$ 25.5</b>	<b>\$ –</b>
Change in Unrealized Gains (Losses) for Investments still held at December 31, 2014	\$ 0.1	\$ –	\$ 0.1	\$ –

**Contributions**

The Company's policy is to make contributions so that they exceed the minimum required by laws and regulations, are consistent with the Company's objective of ensuring sufficient funds to finance future retirement benefits and are tax deductible. CIT currently does not expect to have a required minimum contribution to the U.S. Retirement Plan during 2015. For all other plans, CIT currently expects to contribute \$9.2 million during 2015.

**Table of Contents**

136 CIT ANNUAL REPORT 2014

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Estimated Future Benefit Payments**

The following table depicts benefits projected to be paid from plan assets or from the Company's general assets calculated using current actuarial assumptions. Actual benefit payments may differ from projected benefit payments.

**Projected Benefits** (dollars in millions)

	Retirement Benefits	Gross Postretirement Benefits	Medicare Subsidy
<b>For the years ended December 31,</b>			
2015	\$ 26.6	\$ 3.0	\$0.3
2016	26.3	3.0	0.3
2017	25.7	3.0	0.4
2018	26.4	2.9	0.4
2019	26.9	2.8	0.4
2020-2024	135.0	12.8	1.0

**Savings Incentive Plan**

CIT has a number of defined contribution retirement plans covering certain of its U.S. and non-U.S. employees designed in accordance with conditions and practices in the respective countries. The U.S. plan, which qualifies under section 401(k) of the Internal Revenue Code, is the largest and accounts for 85% of the Company's total defined contribution retirement expense for the year ended December 31, 2014. Generally, employees may contribute a portion of their eligible compensation, as defined, subject to regulatory limits and plan provisions, and the Company matches these contributions up to a threshold. On October 16, 2012, the Board of Directors of the Company approved plan enhancements which provide participants with additional company contributions in the plan effective January 1, 2013. The cost of these plans totaled \$21.6 million, \$24.9 million and \$16.9 million for the years ended December 31, 2014, 2013, and 2012, respectively.

**Stock-Based Compensation**

In December 2009, the Company adopted the Amended and Restated CIT Group Inc. Long-Term Incentive Plan (the "LTIP"), which provides for grants of stock-based awards to employees, executive officers and directors, and replaced the Predecessor CIT Group Inc. Long-Term Incentive Plan (the "Prior Plan"). The number of shares of common stock that may be issued for all purposes under the LTIP is 10,526,316.

Compensation expense related to equity-based awards are measured and recorded in accordance with ASC 718, *Stock Compensation*. The fair value of equity-based and stock purchase equity awards is measured at the date of grant using a Black-Scholes option pricing model, and the fair value of restricted stock and unit awards is based on the fair market value of CIT's common stock on the date of grant. Compensation expense is recognized over the vesting period (requisite service period), which is generally three years for restricted stock/units, under the graded vesting method, whereby each vesting tranche of the award is amortized separately as if each were a separate award. Valuation assumptions for new equity awards are established at the start of each fiscal year.

Operating expenses includes \$48.8 million of compensation expense related to equity-based awards granted to employees or members of the Board of Directors for the year ended December 31, 2014, including \$48.5 million related to restricted and retention

## Edgar Filing: CIT GROUP INC - Form 10-K

stock and unit awards and the remaining related to stock purchases. Compensation expense related to equity-based awards included \$52.5 million in 2013 and \$41.9 million in 2012.

### Employee Stock Purchase Plan

In December 2010, the Company adopted the CIT Group Inc. 2011 Employee Stock Purchase Plan (the "ESPP"), which was approved by shareholders in May 2011. Eligibility for participation in the ESPP includes employees of CIT and its participating subsidiaries who are customarily employed for at least 20 hours per week, except that any employees designated as highly compensated are not eligible to participate in the ESPP. The ESPP is available to employees in the United States and to certain international employees. Under the ESPP, CIT is authorized to issue up to 2,000,000 shares of common stock to eligible employees. Eligible employees can choose to have between 1% and 10% of their base salary withheld to purchase shares quarterly, at a purchase price equal to 85% of the fair market value of CIT common stock on the last business day of the quarterly offering period. The amount of common stock that may be purchased by a participant through the ESPP is generally limited to \$25,000 per year. A total of 31,497 and 25,490 shares were purchased under the plan in 2014 and 2013, respectively.

### Restricted Stock / Performance Units

Under the LTIP, Restricted Stock Units ("RSUs") are awarded at no cost to the recipient upon grant. RSUs are generally granted annually at the discretion of the Company, but may also be granted during the year to new hires or for retention or other purposes. RSUs granted to employees and members of the Board during 2014 and 2013 generally were scheduled to vest either one third per year for three years or 100% after three years. RSUs granted to employees during 2014 were also subject to performance-hurdle. Certain vested stock awards were scheduled to remain subject to transfer restrictions through the first anniversary of the grant date for members of the Board who elected to receive stock in lieu of cash compensation for their retainer. Vested stock salary awards granted to a limited number of executives were scheduled to remain subject to transfer restrictions through the first and/or third anniversaries of the grant date. Certain RSUs granted to directors, and in limited instances to employees, are designed to settle in cash and are accounted for as "liability" awards as prescribed by ASC 718. The values of

---

### Table of Contents

CIT ANNUAL REPORT 2014 137

---

### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

these cash-settled RSUs are re-measured at the end of each reporting period until the award is settled.

During 2014, 2013 and 2012, Performance Stock Units ("PSUs") were awarded to certain senior executives. The awards become payable only if CIT achieves certain volume and margin targets over a three-year performance period. PSU share payouts may increase or decrease from the target grant based on performance against these pre-established performance measures, with the actual number of shares ranging from 0% to a maximum of 150% of the target grant for PSUs granted in 2014 and 2013, and a maximum of 200% of the target grant for PSUs granted in 2012. Both performance measures have a minimum threshold level of performance that must be achieved to trigger any payout; if the threshold level of performance is not achieved for either performance measure, then no portion of the PSU target will be payable. Achievement against either performance measures is calculated independently of the other performance measure and each measure is weighted equally.

The fair value of restricted stock and RSUs that vested and settled in stock during 2014, 2013 and 2012 was \$42.8 million, \$38.6 million and \$10.8 million, respectively. The fair value of RSUs that vested and settled in cash during 2014, 2013 and 2012 was \$0.2 million, \$0.4 million and \$0.4 million, respectively.

The following tables summarize restricted stock and RSU activity for 2014 and 2013:

### Stock and Cash — Settled Awards Outstanding

**Stock-Settled Awards**

**Cash-Settled Awards**

---

	Stock-Settled Awards		Cash-Settled Awards	
	Number of Shares	Weighted Average Grant Date Value	Number of Shares	Weighted Average Grant Date Value
<b>December 31, 2014</b>				
Unvested at beginning of period	2,219,463	\$41.51	5,508	\$41.93
Vested / unsettled Stock Salary at beginning of period	15,066	41.46	2,165	39.05
PSUs – granted to employees	138,685	47.77	–	–
RSUs – granted to employees	905,674	47.71	–	–
RSUs – granted to directors	35,683	43.07	4,046	42.01
Forfeited / cancelled	(107,445)	43.87	–	–
Vested / settled awards	(913,387)	41.70	(4,284)	41.20
Vested / unsettled awards	(25,255)	40.38	(1,082)	39.05
Unvested at end of period	2,268,484	\$44.22	6,353	\$41.99

**Item 8: Financial Statements and Supplementary Data****Table of Contents**

138 CIT ANNUAL REPORT 2014

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 21 — COMMITMENTS

The accompanying table summarizes credit-related commitments, as well as purchase and funding commitments:

**Commitments** (dollars in millions)

	December 31, 2014			December 31, 2013
	Due to Expire		Total Outstanding	
	Within One Year	After One Year		
<b>Financing Commitments</b>				4,325.8
Financing and leasing assets	\$729.4	\$ 4,018.5	\$ 4,747.9	\$
<b>Letters of credit</b>				
Standby letters of credit	23.4	336.7	360.1	302.3
Other letters of credit	28.3	–	28.3	35.9
<b>Guarantees</b>				
Deferred purchase agreements	–	–	1,854.4	–

Edgar Filing: CIT GROUP INC - Form 10-K

December 31, 2014

	December 31, 2014			
	1,854.4			1,771.6
Guarantees, acceptances and other recourse obligations	2.8	–	2.8	3.9
<b>Purchase and Funding Commitments</b>				
				8,744.5
Aerospace manufacturer purchase commitments	945.7	9,874.7	10,820.4	
				1,054.0
Rail and other manufacturer purchase commitments	943.0	380.2	1,323.2	

Financing commitments, referred to as loan commitments or lines of credit, reflect CIT's agreements to lend to its customers, subject to the customers' compliance with contractual obligations. Included in the table above are commitments that have been extended to and accepted by customers, clients or agents, but on which the criteria for funding have not been completed of \$355 million at December 31, 2014 and \$548 million at December 31, 2013. Financing commitments also include credit line agreements to Commercial Services clients that are cancellable by us only after a notice period. The notice period is typically 90 days or less. The amount available under these credit lines, net of amount of receivables assigned to us, is \$112 million at December 31, 2014. As financing commitments may not be fully drawn, may expire unused, may be reduced or cancelled at the customer's request, and may require the customer to be in compliance with certain conditions, total commitment amounts do not necessarily reflect actual future cash flow requirements.

The table above includes approximately \$1.3 billion of undrawn financing commitments at December 31, 2014 and \$0.9 billion at December 31, 2013 for instances where the customer is not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend.

At December 31, 2014, substantially all undrawn financing commitments were senior facilities. Most of the Company's undrawn and available financing commitments are in the Corporate Finance division of NACF.

The table above excludes uncommitted revolving credit facilities extended by Commercial Services to its clients for working capital purposes. In connection with these facilities, Commercial Services has the sole discretion throughout the duration of these facilities to determine the amount of credit that may be made available to its clients at any time and whether to honor any specific advance requests made by its clients under these credit facilities.

#### Letters of Credit

In the normal course of meeting the needs of clients, CIT sometimes enters into agreements to provide financing and letters of credit. Standby letters of credit obligate the issuer of the letter of credit to pay the beneficiary if a client on whose behalf the letter of credit was issued does not meet its obligation. These financial instruments generate fees and involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheets. To minimize potential credit risk, CIT generally requires collateral and in some cases additional forms of credit support from the client.

#### Deferred Purchase Agreements

A Deferred Purchase Agreement ("DPA") is provided in conjunction with factoring, whereby CIT provides a client with credit protection for trade receivables without purchasing the receivables. The trade receivable terms are generally sixty days or less. If the client's customer is unable to pay an undisputed receivable solely as the result of credit risk, then CIT purchases the receivable from the client. The outstanding amount in the table above is the maximum potential exposure that CIT would be required to pay under all DPAs. This maximum amount would only occur if all receivables subject to DPAs default in the manner described above, thereby requiring CIT to purchase all such receivables from the DPA clients.

The table above includes \$1,775 million of DPA credit protection at December 31, 2014, related to receivables which have been presented to us for credit protection after shipment of goods has occurred and the customer has been invoiced. The table also includes \$79 million available under DPA credit line agreements, net of amount of DPA credit protection provided at December 31, 2014. The DPA credit line agreements specify a contractually committed amount of DPA credit protection and are cancellable by us only after a notice period. The notice period is typically 90 days or less.

**Table of Contents**

CIT ANNUAL REPORT 2014 139

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The methodology used to determine the DPA liability is similar to the methodology used to determine the allowance for loan losses associated with the finance receivables, which reflects embedded losses based on various factors, including expected losses reflecting the Company's internal customer and facility credit ratings. The liability recorded in Other Liabilities related to the DPAs totaled \$5.2 million and \$6.0 million at December 31, 2014 and December 31, 2013, respectively.

**Purchase and Funding Commitments**

CIT's purchase commitments relate primarily to purchases of commercial aircraft and rail equipment. Commitments to purchase new commercial aircraft are predominantly with Airbus Industries ("Airbus"), The Boeing Company ("Boeing"), and Embraer S.A. ("Embraer"). CIT may also commit to purchase an aircraft directly from an airline. Aerospace equipment purchases are contracted for specific models, using baseline aircraft specifications at fixed prices, which reflect discounts from fair market purchase prices prevailing at the time of commitment. The delivery price of an aircraft may change depending on final specifications. Equipment purchases are recorded at the delivery date. The estimated commitment amounts in the preceding table are based on contracted purchase prices reduced for pre-delivery payments to date and exclude buyer furnished equipment selected by the lessee. Pursuant to existing contractual commitments, 152 aircraft remain to be purchased from Airbus, Boeing and Embraer at December 31, 2014. Aircraft deliveries are scheduled periodically through 2020. Commitments exclude unexercised options to order additional aircraft. Aerospace purchase commitments also include \$0.2 billion of equipment to be purchased in 2015 pursuant to sale and lease-back agreements with airlines.

The Company's rail business entered into commitments to purchase railcars from multiple manufacturers. At December 31, 2014, approximately 11,000 railcars remain to be purchased from manufacturers with deliveries through 2016. Rail equipment purchase commitments are at fixed prices subject to price increases for certain materials.

Other vendor purchase commitments primarily relate to Equipment Finance.

## NOTE 22 — CONTINGENCIES

**Litigation**

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, "Litigation"). In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter will be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company's financial condition, but may be material to the Company's operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For certain Litigation matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses in excess of established reserves and insurance. For other matters for which a loss is probable or reasonably possible, such an estimate cannot be determined. For Litigation where losses are reasonably possible, management currently estimates the aggregate range of reasonably possible losses as up to \$85 million in excess of established reserves and insurance related to those matters, if any. This estimate represents reasonably possible losses (in excess of established reserves and insurance) over the life of such Litigation, which may span a currently indeterminable number of years, and is based on information currently available as of December 31, 2014. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate.

Those Litigation matters for which an estimate is not reasonably possible or as to which a loss does not appear to be reasonably possible, based on current information, are not included within this estimated range and, therefore, this estimated range does not represent the Company's maximum loss exposure.

The foregoing statements about CIT's Litigation are based on the Company's judgments, assumptions, and estimates and are necessarily subjective and uncertain. Several of the Company's Litigation matters are described below.

#### LAC-MEGANTIC, QUEBEC DERAILMENT

On July 6, 2013, a freight train including five locomotives and seventy-two tank cars carrying crude oil derailed in the town of Lac-Mégantic, Quebec. Nine of the tank cars were owned by The CIT Group/Equipment Financing, Inc. ("CIT/EF") (a wholly-owned subsidiary of the Company) and leased to Western Petroleum Company ("WPC"), a subsidiary of World Fuel Services Corp. ("WFS"). Two of the locomotives are owned by CIT/EF and were leased to Montreal, Maine & Atlantic Railway, Ltd. ("MMA"), the railroad operating the freight train at the time of the derailment, a subsidiary of Rail World, Inc.

The derailment was followed by explosions and fire, which resulted in the deaths of over forty people and an unknown number of injuries, the destruction of more than thirty buildings in Lac-Mégantic, and the release of crude oil on land and into the Chaudière River. The extent of the property and environmental damage has not yet been determined. Twenty lawsuits have been filed in Illinois by representatives of the deceased in connection with the derailment. The Company is named as a defendant in seven of the Illinois lawsuits, together with 13 other defendants, including WPC, MMA (who has since been dismissed without prejudice as a result of its chapter 11 bankruptcy filing on August 7, 2013), and the lessors of the other locomotives and tank cars. Liability could be joint and several among some or all of the defendants. All but two of these cases have been consolidated in the U.S. District Court in the Northern District of Illinois and transferred to the U.S. District Court in Maine. The Company

#### Item 8: Financial Statements and Supplementary Data

---

#### Table of Contents

140 CIT ANNUAL REPORT 2014

---

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

has been named as an additional defendant in a pending class action in the Superior Court of Quebec, Canada. Other cases may be filed in U.S. and Canadian courts. The plaintiffs in the pending U.S. and Canadian actions assert claims of negligence and strict liability based upon alleged design defect against the Company in connection with the CIT/EF tank cars. The Company has rights of indemnification and defense against its lessees, WPC and MMA (a debtor in bankruptcy), and also has rights as an additional insured under liability coverage maintained by the lessees. On July 28, 2014, the Company commenced a lawsuit against WPC in the U.S. District Court in the District of Minnesota to enforce its rights of indemnification and defense. In addition to its indemnification and insurance rights against its lessees, the Company and its subsidiaries maintain contingent and general liability insurance for claims of this nature, and the Company and its insurers are working cooperatively with respect to these claims.

The Lac-Mégantic derailment triggered a number of regulatory investigations and actions. The Transportation Safety Board of Canada issued its final report on the cause(s) of the derailment in September 2014. In addition, Quebec's Environment Ministry has issued an order to WFS, WPC, MMA, and Canadian Pacific Railway (which allegedly subcontracted with MMA) to pay for the full cost of environmental clean-up and damage assessment related to the derailment.

As the Company is unable to predict the outcome of the foregoing legal proceedings or whether and the extent to which additional lawsuits or claims will be brought against the Company or its subsidiaries, the total damages have not been quantified, there are a large number of parties named as defendants, and the extent to which resulting liability will be assessed against other parties and their financial ability to bear such responsibilities is unknown, the Company cannot reasonably estimate the amount or range of loss that may be incurred in connection with the derailment. The Company is vigorously defending the claims that have been asserted, including pursuing its rights under indemnification agreements and insurance policies. MMA's U.S. bankruptcy trustee, together with

its Canadian bankruptcy monitor, is engaged in negotiations in pursuit of a global or close to global settlement with the various parties in the various pending lawsuits. CIT has reached the terms of a settlement with the MMA US bankruptcy trustee, which settlement remains subject to documentation and court approval. The settlement will not have a material adverse effect on the Company's financial condition or results of operations.

## BRAZILIAN TAX MATTERS

Banco Commercial Investment Trust do Brasil S.A. ("Banco CIT"), CIT's Brazilian bank subsidiary, is pursuing a number of tax appeals relating to disputed local tax assessments on leasing services and importation of equipment. The disputes primarily involve questions of whether the correct taxing authorities were paid and whether the proper tax rate was applied.

### ISS Tax Appeals

Notices of infraction were received relating to the payment of Imposto sobre Serviços ("ISS"), charged by municipalities in connection with services. The Brazilian municipalities of Itu and Cascavel claim that Banco CIT should have paid them ISS tax on leasing services for tax years 2006 – 2011. Instead, Banco CIT paid the ISS tax to Barueri, the municipality in which it is domiciled in São Paulo, Brazil. The disputed issue is whether the ISS tax should be paid to the municipality in which the leasing company is located or the municipality in which the services were rendered or the customer is located. One of the pending ISS tax matters was resolved in favor of Banco CIT in April 2014. The amounts claimed by the taxing authorities of Itu and Cascavel collectively for open tax assessments and penalties are approximately 454,000 Reais (approximately \$171,000). Favorable legal precedent in a similar tax appeal has been issued by Brazil's highest court resolving the conflict between municipalities.

### ICMS Tax Appeals

Notices of infraction were received relating to the payment of Imposto sobre Circulacao de Mercadorias e Servicos ("ICMS") taxes charged by states in connection with the importation of equipment. The state of São Paulo claims that Banco CIT should have paid it ICMS tax for tax years 2006 – 2009 because Banco CIT, the purchaser, is located in São Paulo. Instead, Banco CIT paid ICMS tax to the states of Espirito Santo, Espirito Santa Caterina, and Alagoas, where the imported equipment arrived. A recent regulation issued by São Paulo in December 2013 reaffirms a 2009 agreement by São Paulo to conditionally recognize ICMS tax payments made to Espirito Santo. One of the pending notices of infraction against Banco CIT related to taxes paid to Espirito Santo was extinguished in May 2014. Another assessment related to taxes paid to Espirito Santo in the amount of 63.6 million Reais (\$23.9 million) was upheld in a ruling issued by the administrative court in May 2014. That ruling has been appealed. Petitions seeking recognition of the taxes paid to Espirito Santo have been filed with respect to the pending notices of infraction. Petitions were filed in a general amnesty program regarding all but one of the assessments related to taxes paid to Santa Caterina and Alagoas. Those petitions have resulted in the extinguishment of all but one of the Santa Caterina and Alagoas assessments. The amounts claimed by São Paulo collectively for open tax assessments and penalties are approximately 68.5 million Reais (approximately \$25.8 million) for goods imported into the state of Espirito Santo from 2006 – 2009 and the state of Alagoas in 2008.

A notice of infraction was received relating to São Paulo's challenge of the ICMS tax rate paid by Banco CIT for tax years 2004 – 2007. São Paulo alleges that Banco CIT paid a lower rate of ICMS tax on imported equipment than was required (8.8% instead of 18%). Banco CIT challenged the notice of infraction and was partially successful based upon the type of equipment imported. Banco CIT has commenced a judicial proceeding challenging the unfavorable portion of the administrative ruling. The amount claimed by São Paulo for tax assessments and penalties is approximately 4 million Reais (approximately \$1.5 million).

The current potential aggregate exposure in taxes, fines and interest for the ISS and the ICMS tax matters is approximately 73 million Reais (approximately \$27.5 million).

---

## Table of Contents

CIT ANNUAL REPORT 2014 **141**

---

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 — LEASE COMMITMENTS



## Lease Commitments

The following table presents future minimum rental payments under non-cancellable long-term lease agreements for premises and equipment at December 31, 2014:

### Future Minimum Rentals (dollars in millions)

Years Ended December 31,	
2015	\$ 31.3
2016	29.5
2017	25.7
2018	24.5
2019	21.8
Thereafter	37.4
Total	\$ 170.2

In addition to fixed lease rentals, leases generally require payment of maintenance expenses and real estate taxes, both of which are subject to escalation provisions. Minimum payments include \$72.4 million (\$12.2 million for 2015) which will be recorded against the facility exiting liability when paid and therefore will not be recorded as rental expense in future periods. Minimum payments have not been reduced by minimum sublease rentals of \$57.5 million due in the future under non-cancellable subleases which will be recorded against the facility exiting liability when received. See *Note 27 — "Severance and Facility Exiting Liabilities"* for the liability related to closing facilities.

Rental expense for premises, net of sublease income (including restructuring charges from exiting office space), and equipment, was as follows.

	Years Ended December 31,		
	2014	2013	2012
	(dollars in millions)		
Premises	\$20.1	\$19.0	\$19.8
Equipment	3.4	3.0	2.9
Total	\$23.5	\$22.0	\$22.7

### NOTE 24 — CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

CIT invests in various trusts, partnerships, and limited liability corporations established in conjunction with structured financing transactions of equipment, power and infrastructure projects. CIT's interests in these entities were entered into in the ordinary course of business. Other assets included approximately \$73 million and \$65 million at December 31, 2014 and 2013, respectively, of investments in non-consolidated entities relating to such transactions that are accounted for under the equity or cost methods. The increase reflects the investment in new joint ventures.

During 2014, the Company formed two joint ventures (collectively "TC-CIT Aviation") between CIT Aerospace and Century Tokyo Leasing Corporation ("CTL"). CIT records its net investment under the equity method of accounting. Under the terms of the agreements, TC-CIT Aviation will acquire commercial aircraft that will be leased to airlines around the globe. Initially, CIT Aerospace expects to sell 14 commercial aircraft (of which 9 were completed at December 31, 2014) to TC-CIT Aviation in transactions with an aggregate value of approximately \$0.6 billion and is responsible for arranging future aircraft acquisitions, negotiating leases, servicing the aircraft and administering the entities. CIT also made and maintains a minority equity investment in TC-CIT Aviation. CTL made and maintains a majority equity interest in the joint venture and will be a lender to the companies.

The combination of investments in and loans to non-consolidated entities represents the Company's maximum exposure to loss, as the Company does not provide guarantees or other forms of indemnification to non-consolidated entities.

Certain shareholders of CIT provide investment management, banking and investment banking services in the normal course of business.

NOTE 25 — BUSINESS SEGMENT INFORMATION

**Management’s Policy in Identifying Reportable Segments**

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 management.

**Types of Products and Services**

Effective January 1, 2014, Management changed its operating segments to (i) realign and simplify its businesses and organizational structure, (ii) streamline and consolidate certain business processes to achieve greater operating efficiencies, and (iii) leverage CIT’s operational capabilities for the benefit of its clients and customers. Effective January 1, 2014, CIT manages its business and reports financial results in three operating segments: (1) Transportation & International Finance; (2) North American Commercial Finance; and (3) Non-Strategic Portfolios.

The change in segment reporting did not affect CIT’s historical consolidated results of operations. The discussions below reflect the new reporting segments; all prior period comparisons have been conformed and are consistent with the presentation of financial information to management.

TIF offers secured lending and leasing products to midsize and larger companies across the aerospace, rail and maritime industries, as well as international finance, which includes corporate lending and equipment financing businesses in China and the U.K. Revenues generated by TIF include rents collected on leased assets, interest on loans, fees, and gains from assets sold.

NACF offers secured lending as well as other financial products and services predominately to small and midsize companies in the U.S. and Canada. These include secured revolving lines of credit and term loans, leases, accounts receivable credit protection, accounts receivable collection, import and export financing, factoring, debtor-in-possession and turnaround financing and receivable advisory services. Revenues generated by NACF include interest earned on loans, rents collected on leased assets, fees and other revenue from leasing activities and capital

**Item 8: Financial Statements and Supplementary Data**

---

**Table of Contents**

**142** CIT ANNUAL REPORT 2014

---

CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

markets transactions, and commissions earned on factoring and related activities.

NSP consists of portfolios that we no longer consider strategic. At December 31, 2014 these consisted primarily of equipment financing portfolios in Mexico and Brazil, both of which were under separate contracts of sale.

**Segment Profit and Assets**

Certain activities are not attributed to operating segments and are included in Corporate & Other. Some of the more significant items include loss on debt extinguishments, costs associated with excess cash liquidity (Interest Expense), mark-to-market

Edgar Filing: CIT GROUP INC - Form 10-K

adjustments on non-qualifying derivatives (Other Income) and restructuring charges for severance and facilities exit activities (Operating Expenses).

**Segment Pre-tax Income (Loss)** (dollars in millions)

	<b>Transportation &amp; International Finance</b>	<b>North American Commercial Finance</b>	<b>Non-Strategic Portfolios</b>	<b>Corporate &amp; Other</b>	<b>Total CIT</b>
<b>For the year ended December 31, 2014</b>					
Interest income	\$ 289.4	\$ 832.4	\$ 90.5	\$ 14.2	\$ 1,226.5
Interest expense	(650.4)	(285.4)	(82.1)	(68.3)	(1,086.2)
Provision for credit losses	(38.3)	(62.0)	0.4	(0.2)	(100.1)
Rental income on operating leases	1,959.9	97.4	35.7	–	2,093.0
Other income	69.9	318.0	(57.6)	(24.9)	305.4
Depreciation on operating lease equipment	(519.6)	(81.7)	(14.4)	–	(615.7)
Maintenance and other operating lease expenses	(196.8)	–	–	–	(196.8)
Operating expenses	(301.9)	(499.7)	(74.6)	(65.6)	(941.8)
Loss on debt extinguishment	–	–	–	(3.5)	(3.5)
Income (loss) from continuing operations before (provision) benefit for income taxes	\$ 612.2	\$ 319.0	\$(102.1)	\$(148.3)	\$ 680.8
<b>Select Period End Balances</b>					
Loans	\$ 3,558.9	\$ 15,936.0	\$ 0.1	\$ –	\$ 19,495.0
Credit balances of factoring clients	–	(1,622.1)	–	–	(1,622.1)
Assets held for sale	815.2	22.8	380.1	–	1,218.1
Operating lease equipment, net	14,665.2	265.2	–	–	14,930.4
<b>For the year ended December 31, 2013</b>					
Interest income	\$ 254.9	\$ 828.6	\$ 157.2	\$ 14.5	\$ 1,255.2
Interest expense	(585.5)	(284.3)	(130.2)	(60.9)	(1,060.9)
Provision for credit losses	(18.7)	(35.5)	(10.8)	0.1	(64.9)
Rental income on operating leases	1,682.4	104.0	111.0	–	1,897.4
Other income	82.2	306.5	(14.6)	7.2	381.3
Depreciation on operating lease equipment	(433.3)	(75.1)	(32.2)	–	(540.6)
Maintenance and other operating lease expenses	(163.0)	–	(0.1)	–	(163.1)
Operating expenses	(255.3)	(479.5)	(143.1)	(92.3)	(970.2)
Income (loss) from continuing operations before (provision) benefit for income taxes	\$ 563.7	\$ 364.7	\$ (62.8)	\$(131.4)	\$ 734.2
<b>Select Period End Balances</b>					
Loans	\$ 3,494.4	\$ 14,693.1	\$ 441.7	\$ –	\$ 18,629.2
Credit balances of factoring clients	–	(1,336.1)	–	–	(1,336.1)
Assets held for sale	158.5	38.2	806.7	–	1,003.4
Operating lease equipment, net	12,778.5	240.5	16.4	–	13,035.4

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Segment Pre-tax Income (Loss)** (dollars in millions) (continued)

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Corporate & Other	Total CIT
<b>For the year ended December 31, 2012</b>					
Interest income	\$ 218.2	\$ 976.5	\$ 180.3	\$ 19.0	\$ 1,394.0
Interest expense	(1,331.5)	(750.9)	(262.4)	(320.9)	(2,665.7)
Provision for credit losses	(14.5)	(44.0)	7.3	(0.2)	(51.4)
Rental income on operating leases	1,666.3	99.4	135.1	–	1,900.8
Other income	65.8	555.2	(9.1)	2.8	614.7
Depreciation on operating lease equipment	(410.9)	(71.9)	(30.4)	–	(513.2)
Maintenance and other operating lease expenses	(139.3)	–	(0.1)	–	(139.4)
Operating expenses	(220.3)	(497.0)	(145.7)	(31.0)	(894.0)
Loss on debt extinguishments	–	–	–	(61.2)	(61.2)
Income (loss) from continuing operations before (provision) benefit for income taxes	\$ (166.2)	\$ 267.3	\$ (125.0)	\$ (391.5)	\$ (415.4)
<b>Select Period End Balances</b>					
Loans	\$ 2,556.5	\$ 13,084.4	\$ 1,512.2	\$ –	\$ 17,153.1
Credit balances of factoring clients	–	(1,256.5)	–	–	(1,256.5)
Assets held for sale	173.6	42.1	429.1	–	644.8
Operating lease equipment, net	12,178.0	150.9	82.8	–	12,411.7

**Geographic Information**

The following table presents information by major geographic region based upon the location of the Company's legal entities.

**Geographic Regions** (dollars in millions)

		Total Assets (3)	Total Revenue from continuing operations	Income (loss) from continuing operations before benefit (provision) for income taxes	Income (loss) from continuing operations before attribution of noncontrolling interests
U.S. (3)	2014	\$ 34,985.8	\$ 2,174.3	\$ 342.4	\$ 740.9
	2013	\$ 34,121.0	\$ 2,201.7	\$ 374.2	\$ 354.6
	2012	\$ 30,829.1	\$ 2,464.2	\$ (1,004.3)	\$ (1,046.1)
Europe	2014	\$ 7,950.5	\$ 857.7	\$ 161.2	\$ 175.4
	2013	\$ 7,679.6	\$ 807.4	\$ 167.3	\$ 121.5
	2012	\$ 7,274.9	\$ 822.7	\$ 224.7	\$ 195.4
Other foreign (1) (2)	2014	\$ 4,943.7	\$ 592.9	\$ 177.2	\$ 162.4
	2013	\$ 5,338.4	\$ 524.8	\$ 192.7	\$ 174.2

		Total Assets (3)	Total Revenue from continuing operations	Income (loss) from continuing operations before benefit (provision) for income taxes	Income (loss) from continuing operations before attribution of noncontrolling interests
	2012	\$ 5,908.0	\$ 622.6	\$ 364.2	\$ 318.6
Total consolidated	2014	\$ 47,880.0	\$ 3,624.9	\$ 680.8	\$ 1,078.7
	2013	\$ 47,139.0	\$ 3,533.9	\$ 734.2	\$ 650.3
	2012	\$ 44,012.0	\$ 3,909.5	\$ (415.4)	\$ (532.1)

<sup>(1)</sup> Includes Canada region results which had income before income taxes of \$72.6 million in 2014, \$79.5 million in 2013 and \$164.3 million in 2012 and income before noncontrolling interests of \$57.4 million in 2014, \$69.2 million in 2013 and \$112.0 million in 2012.

<sup>(2)</sup> Includes Caribbean region results which had income before income taxes of \$161.0 million in 2014, \$103.3 million in 2013 and \$203.5 million in 2012 and income before noncontrolling interests of \$161.7 million in 2014, \$103.4 million in 2013 and \$199.7 million in 2012.

<sup>(3)</sup> Includes Assets of discontinued operation of \$3,821.4 million at December 31, 2013, and \$4,202.6 million at December 31, 2012. The Assets of discontinued operation are in the U.S. There were no Assets of discontinued operation at December 31, 2014.

#### Item 8: Financial Statements and Supplementary Data

#### Table of Contents

144 CIT ANNUAL REPORT 2014

#### CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 26 — GOODWILL AND INTANGIBLE ASSETS

The following tables summarize goodwill and intangible assets, net balances by segment:

#### Goodwill (dollars in millions)

	Transportation & International Finance	North American Commercial Finance	Non-Strategic Portfolios	Total
December 31, 2012	\$ 183.1	\$ 151.5	\$ 11.3	\$ 345.9
Activity	—	—	(11.3)	(11.3)
December 31, 2013	183.1	151.5	—	334.6
Additions, Activity <sup>(1)</sup>	68.9	167.8	—	236.7
December 31, 2014	\$ 252.0	\$ 319.3	\$ —	\$ 571.3

<sup>(1)</sup> Includes adjustments related to purchase accounting and foreign exchange translation.

Goodwill balances as of December 31, 2013 represented the excess of reorganization equity value over the fair value of tangible and identifiable intangible assets, net of liabilities recorded in conjunction with FSA. Following the change to the business segments as discussed in Note 25 — Business Segment Information, effective January 1, 2014, this goodwill was reallocated to the Company's TIF, NACF and NSP segments. The balance was further allocated to reporting units within the segments, Transportation Finance (TIF), Commercial Services (NACF), Equipment Finance (NACF) and NSP, based on the respective reporting unit's estimated fair value of equity. The Company evaluated goodwill for impairment immediately before and after the reallocation of goodwill to the reporting units and identified no impairment.

On January 31, 2014, CIT acquired 100% of the outstanding shares of Paris-based Nacco, an independent full service railcar lessor in Europe. The purchase price was approximately \$250 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date, resulting in \$77 million of goodwill. The assets acquired included approximately \$650 million of leasing assets along with existing secured debt.

On August 1, 2014, CIT Bank acquired 100% of the outstanding shares of Capital Direct Group and its subsidiaries ("Direct Capital"), a U.S. based lender providing equipment leasing and financing to small and mid-sized businesses operating across a range of industries. The purchase price was approximately \$230 million and the acquired assets and liabilities were recorded at their estimated fair values as of the acquisition date resulting in approximately \$170 million of goodwill. The assets acquired included finance receivables of approximately \$540 million, along with existing secured debt of \$487 million. In addition, intangible assets of approximately \$12 million were recorded relating mainly to the valuation of existing customer relationships and trade names.

Once goodwill has been assigned, it no longer retains its association with a particular event or acquisition, and all of the activities within a reporting unit, whether acquired or internally generated, are available to support the value of the goodwill.

The Company periodically reviews and evaluates its goodwill and intangible assets for potential impairment. In 2014, in addition to the analysis performed in conjunction with the reallocation of goodwill as of January 1, 2014, CIT also performed Step 1 goodwill impairment testing for Transportation Finance, Commercial Services and Equipment Finance by comparing the reporting units' estimated fair value with their carrying values, including goodwill. The Company estimated the fair values of the reporting units based on peer price to earnings (PE) and tangible book value (TBV) multiples for publicly traded companies comparable to the reporting units. Management concluded, based on performing the Step 1 analysis, that the fair values of each of the reporting units exceeded their respective carrying values, including goodwill. As the results of the first step test showed no indication of impairment in any of the reporting units, the Company did not perform the second step of the impairment test for any of the reporting units.

#### Intangible Assets (dollars in millions)

	Transportation & International Finance	North American Commercial Finance	Total
December 31, 2012	\$ 31.9	\$ —	\$31.9
Amortization	(11.6 )	—	(11.6 )
December 31, 2013	20.3	—	20.3
Additions	(0.4 )	12.3	11.9
Amortization, other <sup>(1)</sup>	(6.3 )	(0.2 )	(6.5 )
December 31, 2014	\$ 13.6	\$ 12.1	\$25.7

<sup>(1)</sup> Includes foreign exchange translation.

#### Table of Contents

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The TIF intangible assets recorded in conjunction with FSA are comprised of amounts related to favorable (above current market rates) operating leases. The net intangible asset will be amortized as an offset to rental income over the remaining life of the leases, generally 5 years or less. The NACF intangible assets of approximately \$12 million recorded in 2014 related mainly to the valuation of existing customer relationships and trade names recorded in conjunction with the acquisition of Direct Capital.

Accumulated amortization totaled \$204.6 million at December 31, 2014. Projected amortization for the years ended December 31, 2015 through December 31, 2019 is approximately \$6.9 million, \$5.1 million, \$3.2 million, \$3.1 million, and \$3.2 million, respectively.

## NOTE 27 — SEVERANCE AND FACILITY EXITING LIABILITIES

The following table summarizes liabilities (pre-tax) related to closing facilities and employee severance:

**Severance and Facility Exiting Liabilities** (dollars in millions)

	Severance		Facilities		Total Liabilities
	Number of Employees	Liability	Number of Facilities	Liability	
December 31, 2012	63	\$ 7.3	16	\$ 38.8	\$ 46.1
Additions and adjustments	274	33.4	3	3.7	37.1
Utilization	(212)	(23.0)	(3)	(9.2)	(32.2)
December 31, 2013	125	17.7	16	33.3	51.0
Additions and adjustments	150	28.8	2	(2.2)	26.6
Utilization	(228)	(37.8)	(5)	(7.4)	(45.2)
December 31, 2014	47	\$ 8.7	13	\$ 23.7	\$ 32.4

CIT continued to implement various organization efficiency and cost reduction initiatives, such as our international rationalization activities. The severance additions primarily relate to employee termination benefits incurred in conjunction with these initiatives. The facility additions primarily relate to location closings and consolidations in connection with these initiatives. These additions, along with charges related to accelerated vesting of equity and other benefits, were recorded as part of the \$31.4 million and \$36.9 million provisions for the years ended December 31, 2014 and 2013, respectively.

**Item 8: Financial Statements and Supplementary Data****Table of Contents**

146 CIT ANNUAL REPORT 2014

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 28 — PARENT COMPANY FINANCIAL STATEMENTS

The following tables present the Parent Company only financial statements:

**Condensed Parent Company Only Balance Sheet** (dollars in millions)

Edgar Filing: CIT GROUP INC - Form 10-K

	December 31, 2014	December 31, 2013
<b>Assets:</b>		
Cash and deposits	\$ 1,432.6	\$ 1,533.5
Cash held at bank subsidiary	20.3	62.0
Securities purchased under agreements to resell	650.0	-
Investment securities	1,104.2	2,096.6
Receivables from nonbank subsidiaries	10,735.2	12,871.1
Receivables from bank subsidiaries	321.5	5.6
Investment in nonbank subsidiaries	6,600.1	6,533.4
Investment in bank subsidiaries	2,716.4	2,599.6
Goodwill	334.6	334.6
Other assets	1,625.2	853.2
<b>Total Assets</b>	<b>\$ 25,540.1</b>	<b>\$ 26,889.6</b>
<b>Liabilities and Equity:</b>		
Long-term borrowings	\$ 11,932.4	\$ 12,531.6
Liabilities to nonbank subsidiaries	3,924.1	4,840.9
Other liabilities	614.7	678.3
<b>Total Liabilities</b>	<b>16,471.2</b>	<b>18,050.8</b>
Total Stockholders' Equity	9,068.9	8,838.8
<b>Total Liabilities and Equity</b>	<b>\$ 25,540.1</b>	<b>\$ 26,889.6</b>

**Condensed Parent Company Only Statements of Operations and Comprehensive Income** (dollars in millions)

	Years Ended December 31,		
	2014	2013	2012
<b>Income</b>			
Interest income from nonbank subsidiaries	\$ 560.3	\$ 636.6	\$ 737.6
Interest and dividends on interest bearing deposits and investments	1.4	2.0	2.6
Dividends from nonbank subsidiaries	526.8	551.1	834.0
Other income from subsidiaries	(23.0)	50.8	181.0
Other income	103.8	(4.6)	(37.7)
<b>Total income</b>	<b>1,169.3</b>	<b>1,235.9</b>	<b>1,717.5</b>
<b>Expenses</b>			
Interest expense	(649.6)	(686.9)	(2,345.9)
Interest expense on liabilities to subsidiaries	(166.4)	(199.6)	(293.6)
Other expenses	(199.4)	(220.4)	(242.3)
<b>Total expenses</b>	<b>(1,015.4)</b>	<b>(1,106.9)</b>	<b>(2,881.8)</b>
<b>Income (loss) before income taxes and equity in undistributed net income of subsidiaries</b>	<b>153.9</b>	<b>129.0</b>	<b>(1,164.3)</b>
Benefit for income taxes	769.6	367.9	482.2
<b>Income (loss) before equity in undistributed net income of subsidiaries</b>	<b>923.5</b>	<b>496.9</b>	<b>(682.1)</b>
Equity in undistributed net income of bank subsidiaries	83.8	95.9	41.3
Equity in undistributed net income of nonbank subsidiaries	122.7	82.9	48.5
<b>Net income (loss)</b>	<b>1,130.0</b>	<b>675.7</b>	<b>(592.3)</b>
Other Comprehensive income (loss), net of tax	(60.3)	4.1	4.9



Years Ended December 31,

<b>Comprehensive income (loss)</b>	\$ 1,069.7	\$ 679.8	\$ (587.4)
------------------------------------	------------	----------	------------

**Table of Contents**

CIT ANNUAL REPORT 2014 147

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Condensed Parent Company Only Statements of Cash Flows** (dollars in millions)

Years Ended December 31,

	2014	2013	2012
<b>Cash Flows From Operating Activities:</b>			
Net income (loss)	\$ 1,130.0	\$ 675.7	\$ (592.3)
Equity in undistributed earnings of subsidiaries	(206.5)	(178.8)	(89.8)
Other operating activities, net	(735.4)	(88.2)	1,524.3
Net cash flows provided by operations	188.1	408.7	842.2
<b>Cash Flows From Investing Activities:</b>			
(Increase) decrease in investments and advances to subsidiaries	(92.6)	21.0	4,053.1
Decrease (Increase) in Investment securities	342.3	(1,346.2)	89.1
Net cash flows provided by (used in) investing activities	249.7	(1,325.2)	4,142.2
<b>Cash Flows From Financing Activities:</b>			
Proceeds from the issuance of term debt	991.3	735.2	9,750.0
Repayments of term debt	(1,603.0)	(60.5)	(15,239.8)
Repurchase of common stock	(775.5)	(193.4)	—
Dividends paid	(95.3)	(20.1)	—
Net change in liabilities to subsidiaries	902.1	728.2	(1,139.5)
Net cash flows (used in) provided by financing activities	(580.4)	1,189.4	(6,629.3)
Net (decrease) increase in unrestricted cash and cash equivalents	(142.6)	272.9	(1,644.9)
Unrestricted cash and cash equivalents, beginning of period	1,595.5	1,322.6	2,967.5
Unrestricted cash and cash equivalents, end of period	\$ 1,452.9	\$ 1,595.5	\$ 1,322.6

Item 8: Financial Statements and Supplementary Data

**Table of Contents**

## CIT GROUP AND SUBSIDIARIES — NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 29 — SELECTED QUARTERLY FINANCIAL DATA

The following data has been adjusted for discontinued operation presentation and the classification of railcar maintenance expenses.

**Selected Quarterly Financial Data** (dollars in millions)

	Unaudited			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
<b>For the year ended December 31, 2014</b>				
Interest income	\$ 306.2	\$ 308.3	\$ 309.8	\$ 302.2
Interest expense	(276.9)	(275.2)	(262.2)	(271.9)
Provision for credit losses	(15.0)	(38.2)	(10.2)	(36.7)
Rental income on operating leases	546.5	535.0	519.6	491.9
Other income	116.4	24.2	93.7	71.1
Depreciation on operating lease equipment	(153.2)	(156.4)	(157.3)	(148.8)
Maintenance and other operating lease expenses	(49.7)	(46.5)	(49.0)	(51.6)
Operating expenses	(248.8)	(234.5)	(225.0)	(233.5)
Loss on debt extinguishment	(3.1)	—	(0.4)	—
Benefit (provision) for income taxes	28.3	401.2	(18.1)	(13.5)
Net income attributable to noncontrolling interests, after tax	1.3	(2.5)	(5.7)	5.7
Income (loss) from discontinued operation, net of taxes	(1.0)	(0.5)	51.7	2.3
Net income	\$ 251.0	\$ 514.9	\$ 246.9	\$ 117.2
Net income per diluted share	\$ 1.37	\$ 2.76	\$ 1.29	\$ 0.59
<b>For the year ended December 31, 2013</b>				
Interest income	\$ 307.2	\$ 306.4	\$ 319.1	\$ 322.5
Interest expense	(267.5)	(256.7)	(262.6)	(274.1)
Provision for credit losses	(14.4)	(16.4)	(14.6)	(19.5)
Rental income on operating leases	463.8	472.9	484.3	476.4
Other income	127.6	104.5	79.2	70.0
Depreciation on operating lease equipment	(139.5)	(134.2)	(133.6)	(133.3)
Maintenance and other operating lease expenses	(39.0)	(41.4)	(40.3)	(42.4)
Operating expenses	(284.4)	(228.8)	(226.1)	(230.9)
Provision for income taxes	(28.6)	(13.2)	(29.3)	(12.8)
Net income attributable to noncontrolling interests, after tax	(2.2)	(0.2)	(0.5)	(3.0)
Income from discontinued operation, net of taxes	6.9	6.7	8.0	9.7
Net income	\$ 129.9	\$ 199.6	\$ 183.6	\$ 162.6
Net income per diluted share	\$ 0.65	\$ 0.99	\$ 0.91	\$ 0.81

**Table of Contents**

CIT ANNUAL REPORT 2014 149

---

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

---

**Item 9A. Controls and Procedures**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Under the supervision of and with the participation of management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the "Exchange Act") as of December 31, 2014. Based on such evaluation, the principal executive officer and the principal financial officer have concluded that the Company's disclosure controls and procedures were effective.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER EXTERNAL FINANCIAL REPORTING**

Management of CIT is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over external financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over external financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over external financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management of CIT, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of the Company's internal control over external financial reporting as of December 31, 2014 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework (2013). Management concluded that the Company's internal control over external financial reporting was effective as of December 31, 2014, based on the criteria established in Internal Control — Integrated Framework (2013).

The effectiveness of the Company's internal control over external financial reporting as of December 31, 2014 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING:**

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Item 9B. Other Information**

None

**Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

---

**Table of Contents**

150 CIT ANNUAL REPORT 2014

PART THREE

---

**Item 10. Directors, Executive Officers and Corporate Governance**

The information called for by Item 10 is incorporated by reference from the information under the captions "Directors", "Corporate Governance" and "Executive Officers" in our Proxy Statement for our 2015 annual meeting of stockholders.

---

**Item 11. Executive Compensation**

The information called for by Item 11 is incorporated by reference from the information under the captions "Director Compensation", "Executive Compensation", including "Compensation Discussion and Analysis" and "2014 Compensation Committee Report" in our Proxy Statement for our 2015 annual meeting of stockholders.

---

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information called for by Item 12 is incorporated by reference from the information under the caption "Security Ownership of Certain Beneficial Owners and Management" in our Proxy Statement for our 2015 annual meeting of stockholders.

---

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information called for by Item 13 is incorporated by reference from the information under the captions "Corporate Governance-Director Independence" and "Related Person Transactions Policy" in our Proxy Statement for our 2015 annual meeting of stockholders.

---

**Item 14. Principal Accountant Fees and Services**

The information called for by Item 14 is incorporated by reference from the information under the caption "Proposal 2 — Ratification of Independent Registered Public Accounting Firm" in our Proxy Statement for our 2015 annual meeting of stockholders.

---

**Table of Contents**

CIT ANNUAL REPORT 2014 151

PART FOUR

---

**Item 15. Exhibits and Financial Statement Schedules**

## Edgar Filing: CIT GROUP INC - Form 10-K

(a) The following documents are filed with the Securities and Exchange Commission as part of this report (see *Item 8*):

1. The following financial statements of CIT and Subsidiaries:

Report of Independent Registered Public Accounting Firm Consolidated Balance Sheets at December 31, 2014 and December 31, 2013.

Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012.

Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012.

Notes to Consolidated Financial Statements.

2. All schedules are omitted because they are not applicable or because the required information appears in the Consolidated Financial Statements or the notes thereto.

(b) Exhibits

2.1 Agreement and Plan of Merger, by and among CIT Group Inc., IMB Holdco LLC, Carbon Merger Sub LLC and JCF III HoldCo I L.P., dated as of July 21, 2014 (incorporated by reference to Exhibit 2.1 to Form 8-K filed July 25, 2014).

3.1 Third Amended and Restated Certificate of Incorporation of the Company, dated December 8, 2009 (incorporated by reference to Exhibit 3.1 to Form 8-K filed December 9, 2009).

3.2 Amended and Restated By-laws of the Company, as amended through July 15, 2014 (incorporated by reference to Exhibit 99.1 to Form 8-K filed July 16, 2014).

4.1 Indenture dated as of January 20, 2006 between CIT Group Inc. and The Bank of New York Mellon (as successor to JPMorgan Chase Bank N.A.) for the issuance of senior debt securities (incorporated by reference to Exhibit 4.3 to Form S-3 filed January 20, 2006).

4.2 Framework Agreement, dated July 11, 2008, among ABN AMRO Bank N.V., as arranger, Madeleine Leasing Limited, as initial borrower, CIT Aerospace International, as initial head lessee, and CIT Group Inc., as guarantor, as amended by the Deed of Amendment, dated July 19, 2010, among The Royal Bank of Scotland N.V. (f/k/a ABN AMRO Bank N.V.), as arranger, Madeleine Leasing Limited, as initial borrower, CIT Aerospace International, as initial head lessee, and CIT Group Inc., as guarantor, as supplemented by Letter Agreement No. 1 of 2010, dated July 19, 2010, among The Royal Bank of Scotland N.V., as arranger, CIT Aerospace International, as head lessee, and CIT Group Inc., as guarantor, as amended and supplemented by the Accession Deed, dated July 21, 2010, among The Royal Bank of Scotland N.V., as arranger, Madeleine Leasing Limited, as original borrower, and Jessica Leasing Limited, as acceding party, as supplemented by Letter Agreement No. 2 of 2010, dated July 29, 2010, among The Royal Bank of Scotland N.V., as arranger, CIT Aerospace International, as head lessee, and CIT Group Inc., as guarantor, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets (incorporated by reference to Exhibit 4.11 to Form 10-K filed March 10, 2011).

4.3 Form of All Parties Agreement among CIT Aerospace International, as head lessee, Madeleine Leasing Limited, as borrower and lessor, CIT Group Inc., as guarantor, various financial institutions, as original ECA lenders, ABN AMRO Bank N.V., Paris Branch, as French national agent, ABN AMRO Bank N.V., Niederlassung Deutschland, as German national agent, ABN AMRO Bank N.V., London Branch, as British national agent, ABN AMRO Bank N.V., London Branch, as ECA facility agent, ABN AMRO Bank N.V., London Branch, as security trustee, and CIT Aerospace International, as servicing agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to Exhibit 4.12 to Form 10-K filed March 10, 2011).

4.4 Form of ECA Loan Agreement among Madeleine Leasing Limited, as borrower, various financial institutions, as original ECA lenders, ABN AMRO Bank N.V., Paris Branch, as French national agent, ABN AMRO Bank N.V., Niederlassung Deutschland, as German national agent, ABN AMRO Bank N.V., London Branch, as British national agent, ABN AMRO Bank N.V., London Branch, as ECA facility agent, ABN AMRO Bank N.V., London Branch, as security trustee, and CIT Aerospace International, as servicing agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to Exhibit 4.13 to Form 10-K filed March 10, 2011).

4.5 Form of Aircraft Head Lease between Madeleine Leasing Limited, as lessor, and CIT Aerospace International, as head lessee, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to Exhibit 4.14 to Form 10-K filed March 10, 2011).

**Item 15:** Exhibits and Financial Statement Schedules

**Table of Contents**

152 CIT ANNUAL REPORT 2014

4.6	Form of Proceeds and Intercreditor Deed among Madeleine Leasing Limited, as borrower and lessor, various financial institutions, ABN AMRO Bank N.V., Paris Branch, as French national agent, ABN AMRO Bank N.V., Niederlassung Deutschland, as German national agent, ABN AMRO Bank N.V., London Branch, as British national agent, ABN AMRO Bank N.V., London Branch, as ECA facility agent, ABN AMRO Bank N.V., London Branch, as security trustee, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2008 and 2009 fiscal years (incorporated by reference to Exhibit 4.15 to Form 10-K filed March 10, 2011).
4.7	Form of All Parties Agreement among CIT Aerospace International, as head lessee, Jessica Leasing Limited, as borrower and lessor, CIT Group Inc., as guarantor, various financial institutions, as original ECA lenders, Citibank International plc, as French national agent, Citibank International plc, as German national agent, Citibank International plc, as British national agent, The Royal Bank of Scotland N.V., London Branch, as ECA facility agent, The Royal Bank of Scotland N.V., London Branch, as security trustee, CIT Aerospace International, as servicing agent, and Citibank, N.A., as administrative agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.16 to Form 10-K filed March 10, 2011).
4.8	Form of ECA Loan Agreement among Jessica Leasing Limited, as borrower, various financial institutions, as original ECA lenders, Citibank International plc, as French national agent, Citibank International plc, as German national agent, Citibank International plc, as British national agent, The Royal Bank of Scotland N.V., London Branch, as ECA facility agent, The Royal Bank of Scotland N.V., London Branch, as security trustee, and Citibank, N.A., as administrative agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.17 to Form 10-K filed March 10, 2011).
4.9	Form of Aircraft Head Lease between Jessica Leasing Limited, as lessor, and CIT Aerospace International, as head lessee, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.18 to Form 10-K filed March 10, 2011).
4.10	Form of Proceeds and Intercreditor Deed among Jessica Leasing Limited, as borrower and lessor, various financial institutions, as original ECA lenders, Citibank International plc, as French national agent, Citibank International plc, as German national agent, Citibank International plc, as British national agent, The Royal Bank of Scotland N.V., London Branch, as ECA facility agent, The Royal Bank of Scotland N.V., London Branch, as security trustee, and Citibank, N.A., as administrative agent, relating to certain Export Credit Agency sponsored secured financings of aircraft and related assets during the 2010 fiscal year (incorporated by reference to Exhibit 4.19 to Form 10-K filed March 10, 2011).
4.11	Indenture, dated as of March 30, 2011, between CIT Group Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.1 to Form 8-K filed June 30, 2011).
4.12	First Supplemental Indenture, dated as of March 30, 2011, between CIT Group Inc., the Guarantors named therein, and Deutsche Bank Trust Company Americas, as trustee (including the Form of 5.250% Note due 2014 and the Form of 6.625% Note due 2018) (incorporated by reference to Exhibit 4.2 to Form 8-K filed June 30, 2011).
4.13	Third Supplemental Indenture, dated as of February 7, 2012, between CIT Group Inc., the Guarantors named therein, and Deutsche Bank Trust Company Americas, as trustee (including the Form of Notes) (incorporated by reference to Exhibit 4.4 of Form 8-K dated February 13, 2012).
4.14	Registration Rights Agreement, dated as of February 7, 2012, among CIT Group Inc., the Guarantors named therein, and JP Morgan Securities LLC, as representative for the initial purchasers named therein (incorporated by reference to Exhibit 10.1 of Form 8-K dated February 13, 2012).
4.15	Amended and Restated Revolving Credit and Guaranty Agreement, dated as of January 27, 2014 among CIT Group Inc., certain subsidiaries of CIT Group Inc., as Guarantors, the Lenders party thereto from time to time and Bank of America, N.A., as Administrative Agent and L/C Issuer (incorporated by reference to Exhibit 10.1 to Form 8-K filed January 28, 2014).
4.16	Indenture, dated as of March 15, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (incorporated by reference to Exhibit 4.1 of Form 8-K filed March 16, 2012).
4.17	First Supplemental Indenture, dated as of March 15, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 5.25% Senior Unsecured Note due 2018) (incorporated by reference to Exhibit 4.2 of Form 8-K filed March 16, 2012).

**Table of Contents**

- 4.18 Second Supplemental Indenture, dated as of May 4, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 5.000% Senior Unsecured Note due 2017 and the Form of 5.375% Senior Unsecured Note due 2020) (incorporated by reference to Exhibit 4.2 of Form 8-K filed May 4, 2012).
- 4.19 Third Supplemental Indenture, dated as of August 3, 2012, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 4.25% Senior Unsecured Note due 2017 and the Form of 5.00% Senior Unsecured Note due 2022) (incorporated by reference to Exhibit 4.2 to Form 8-K filed August 3, 2012).
- 4.20 Fourth Supplemental Indenture, dated as of August 1, 2013, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 5.00% Senior Unsecured Note due 2023) (incorporated by reference to Exhibit 4.2 to Form 8-K filed August 1, 2013).
- 4.21 Fifth Supplemental Indenture, dated as of February 19, 2014, among CIT Group Inc., Wilmington Trust, National Association, as trustee, and Deutsche Bank Trust Company Americas, as paying agent, security registrar and authenticating agent (including the Form of 3.875% Senior Unsecured Note due 2019) (incorporated by reference to Exhibit 4.2 to Form 8-K filed February 19, 2014).
- 10.1\* Amended and Restated CIT Group Inc. Long-Term Incentive Plan (as amended and restated effective December 10, 2009) (incorporated by reference to Exhibit 4.1 to Form S-8 filed January 11, 2010).
- 10.2\* CIT Group Inc. Supplemental Retirement Plan (As Amended and Restated Effective as of January 1, 2008) (incorporated by reference to Exhibit 10.27 to Form 10-Q filed May 12, 2008).
- 10.3\* CIT Group Inc. Supplemental Savings Plan (As Amended and Restated Effective as of January 1, 2008) (incorporated by reference to Exhibit 10.28 to Form 10-Q filed May 12, 2008).
- 10.4\* New Executive Retirement Plan of CIT Group Inc. (As Amended and Restated as of January 1, 2008) (incorporated by reference to Exhibit 10.29 to Form 10-Q filed May 12, 2008).
- 10.5\* Form of CIT Group Inc. Three Year Stock Salary Award Agreement, dated February 8, 2010 (incorporated by reference to Exhibit 10.2 to Form 8-K filed February 8, 2010).
- 10.6\* Form of CIT Group Inc. Long-term Incentive Plan Stock Option Award Agreement (One Year Vesting) (incorporated by reference to Exhibit 10.35 to Form 10-Q filed August 9, 2010).
- 10.7\* Form of CIT Group Inc. Long-term Incentive Plan Stock Option Award Agreement (Three Year Vesting) (incorporated by reference to Exhibit 10.36 to Form 10-Q filed August 9, 2010).
- 10.8\* Form of CIT Group Inc. Long-term Incentive Plan Restricted Stock Award Agreement (Three Year Vesting) (incorporated by reference to Exhibit 10.38 to Form 10-Q filed August 9, 2010).
- 10.9\* Form of CIT Group Inc. Long-term Incentive Plan Restricted Stock Unit Director Award Agreement (Initial Grant) (incorporated by reference to Exhibit 10.39 to Form 10-Q filed August 9, 2010).
- 10.10\* Form of CIT Group Inc. Long-term Incentive Plan Restricted Stock Unit Director Award Agreement (Annual Grant) (incorporated by reference to Exhibit 10.40 to Form 10-Q filed August 9, 2010).
- 10.11\* Amended and Restated Employment Agreement, dated as of May 7, 2008, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.35 to Form 10-K filed March 2, 2009).
- 10.12\* Amendment to Employment Agreement, dated December 22, 2008, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.37 to Form 10-K filed March 2, 2009).
- 10.13\* Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Good Reason) (incorporated by reference to Exhibit 10.33 of Form 10-Q filed August 9, 2011).
- 10.14\* Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (without Good Reason) (incorporated by reference to Exhibit 10.34 of Form 10-Q filed August 9, 2011).
- 10.15\*\* Airbus A320 NEO Family Aircraft Purchase Agreement, dated as of July 28, 2011, between Airbus S.A.S. and C.I.T. Leasing Corporation (incorporated by reference to Exhibit 10.35 of Form 10-Q/A filed February 1, 2012).
- 10.16\*\* Amended and Restated Confirmation, dated June 28, 2012, between CIT TRS Funding B.V. and Goldman Sachs International, and Credit Support Annex and ISDA Master Agreement and Schedule, each dated October 26, 2011, between CIT TRS Funding B.V. and Goldman Sachs International, evidencing a \$625 billion securities based financing facility (incorporated by reference to Exhibit 10.32 to Form 10-Q filed August 9, 2012).

**Item 15:** Exhibits and Financial Statement Schedules

**Table of Contents**

154 CIT ANNUAL REPORT 2014

10.17**	Third Amended and Restated Confirmation, dated June 28, 2012, between CIT Financial Ltd. and Goldman Sachs International, and Amended and Restated ISDA Master Agreement Schedule, dated October 26, 2011 between CIT Financial Ltd. and Goldman Sachs International, evidencing a \$1.5 billion securities based financing facility (incorporated by reference to Exhibit 10.33 to Form 10-Q filed August 9, 2012).
10.18**	ISDA Master Agreement and Credit Support Annex, each dated June 6, 2008, between CIT Financial Ltd. and Goldman Sachs International related to a \$1.5 billion securities based financing facility (incorporated by reference to Exhibit 10.34 to Form 10-Q filed August 11, 2008).
10.19	Form of CIT Group Inc. Long-Term Incentive Plan Performance Stock Unit Award Agreement (with Good Reason) (incorporated by reference to Exhibit 10.36 to Form 10-Q filed May 10, 2012).
10.20	Form of CIT Group Inc. Long-Term Incentive Plan Performance Stock Unit Award Agreement (without Good Reason) (incorporated by reference to Exhibit 10.37 to Form 10-Q filed May 10, 2012).
10.21*	Assignment and Extension of Employment Agreement, dated February 6, 2013, by and among CIT Group Inc., C. Jeffrey Knittel and C.I.T. Leasing Corporation (incorporated by reference to Exhibit 10.34 to Form 10-Q filed November 6, 2013).
10.22*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.36 to Form 10-K filed March 1, 2013).
10.23*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (Executives with Employment Agreements) (incorporated by reference to Exhibit 10.37 to Form 10-K filed March 1, 2013).
10.24*	CIT Employee Severance Plan (Effective as of November 6, 2013) (incorporated by reference to Exhibit 10.37 in Form 10-Q filed November 6, 2013).
10.25	Stockholders Agreement, by and among CIT Group Inc. and the parties listed on the signature pages thereto, dated as of July 21, 2014 (incorporated by reference to Exhibit 10.1 to Form 8-K filed July 25, 2014).
10.26*	Retention Letter Agreement, dated July 21, 2014, between CIT Group Inc. and Nelson Chai and Attached Restricted Stock Unit Award Agreement (incorporated by reference to Exhibit 10.4 to Form 8-K filed July 25, 2014).
10.27*	Extension to Term of Employment Agreement, dated January 2, 2014, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Exhibit 10.33 to Form 10-Q filed August 6, 2014).
10.28*	Amendment to Employment Agreement, dated July 14, 2014, between CIT Group Inc. and C. Jeffrey Knittel (incorporated by reference to Form 8-K filed July 16, 2014).
10.29*	Extension to Employment Agreement, dated January 16, 2015, between C.I.T. Leasing Corporation and C. Jeffrey Knittel (filed herein).
10.30*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance Based Vesting) (2013) (filed herein).
10.31*	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance-Based Vesting) (2013) (Executives with Employment Agreements) (filed herein).
10.32	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance Based Vesting) (2014) (filed herein).
10.33	Form of CIT Group Inc. Long-Term Incentive Plan Restricted Stock Unit Award Agreement (with Performance Based Vesting) (2014) (Executives with Employment Agreements) (filed herein).
12.1	CIT Group Inc. and Subsidiaries Computation of Ratio of Earnings to Fixed Charges.
21.1	Subsidiaries of CIT Group Inc.
23.1	Consent of PricewaterhouseCoopers LLP.
24.1	Powers of Attorney.
31.1	Certification of John A. Thain pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Commission, as promulgated pursuant to Section 13(a) of the Securities Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Scott T. Parker pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Commission, as promulgated pursuant to Section 13(a) of the Securities Exchange Act and Section 302 of the Sarbanes-Oxley Act of 2002.
32.1***	Certification of John A. Thain pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**



32.2***	Certification of Scott T. Parker pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. XBRL Instance Document (Includes the following financial information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language):
101.INS	(i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.)
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

\* Indicates a management contract or compensatory plan or arrangement.

\*\* Portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an application for granting confidential treatment pursuant to the Securities Exchange Act of 1934, as amended.

\*\*\* This information is furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not incorporated by reference into any filing under the Securities Act of 1933.

#### Item 15: Exhibits and Financial Statement Schedules

---

#### Table of Contents

156 CIT ANNUAL REPORT 2014

#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

February 20, 2015

CIT GROUP INC.

By: /s/ John A. Thain

**John A. Thain**

**Chairman and Chief Executive Officer and Director**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on February 20, 2015 in the capacities indicated below.

**NAME**

**NAME**

Edgar Filing: CIT GROUP INC - Form 10-K

/s/ John A. Thain

**John A. Thain**  
**Chairman and Chief Executive Officer and Director**

Gerald Rosenfeld\*

**Gerald Rosenfeld**  
**Director**

Ellen R. Alemany\*

**Ellen R. Alemany**  
**Director**

Sheila A. Stamps\*

**Sheila A. Stamps**  
**Director**

Michael J. Embler\*

**Michael J. Embler**  
**Director**

Seymour Sternberg\*

**Seymour Sternberg**  
**Director**

William M. Freeman\*

**William M. Freeman**  
**Director**

Peter J. Tobin\*

**Peter J. Tobin**  
**Director**

David M. Moffett\*

**David M. Moffett**  
**Director**

Laura S. Unger\*

**Laura S. Unger**  
**Director**

R. Brad Oates\*

**R. Brad Oates**  
**Director**

/s/ Scott T. Parker

**Scott T. Parker**  
**Executive Vice President and Chief Financial Officer**

Marianne Miller Parrs\*

**Marianne Miller Parrs**  
**Director**

/s/ E. Carol Hayles

**E. Carol Hayles**  
**Executive Vice President and Controller**

John A. Ryan\*

**John R. Ryan**  
**Director**

/s/ James P. Shanahan

**James P. Shanahan**  
**Senior Vice President,**  
**Chief Regulatory Counsel, Attorney-in-Fact**

\* *Original powers of attorney authorizing Robert J. Ingato, Christopher H. Paul, and James P. Shanahan and each of them to sign on behalf of the above-mentioned directors are held by the Corporation and available for examination by the Securities and Exchange Commission pursuant to Item 302(b) of Regulation S-T.*

---