CIT GROUP INC
Form 10-Q
November 06, 2013

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

FORM 10-Q

|X|	Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 *For the quarterly period ended September 30, 2013*	| |	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 Number)
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)	

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 |X| 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 |X| No |_|

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. Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_| Smaller reporting company |_|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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 |X| No |_|

As of October 31, 2013 there were 200,164,479 shares of the registrant s common stock outstanding.

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Part One Financial Information

ITEM 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (Unaudited) (dollars in millions except share data)

	September 30, 2013	December 31, 2012

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks, including restricted balances of $602.9 and $497.6 at September 30, 2013 and December 31, 2012[(1)]	$ 1,488.1	$ 877.1
Interest bearing deposits, including restricted balances of $501.8 and $687.5 at September 30, 2013 and December 31, 2012[(1)]	4,486.2	5,944.2
Investment securities	2,498.9	1,065.5
Trading assets at fair value derivatives	17.5	8.4
Assets held for sale[(1)]	1,122.2	646.4
Loans (see Note 5 for amounts pledged)	21,822.7	20,847.6
Allowance for loan losses	(356.1)	(379.3)
Total loans, net of allowance for loan losses[(1)]	21,466.6	20,468.3
Operating lease equipment, net (see Note 5 for amounts pledged)[(1)]	12,577.1	12,411.7
Unsecured counterparty receivable	626.2	649.1
Goodwill	338.3	345.9
Intangible assets, net	22.4	31.9
Other assets	1,580.5	1,563.5
Total Assets	**$46,224.0**	**$44,012.0**
Liabilities		
Deposits	$11,806.1	$ 9,684.5
Trading liabilities at fair value derivatives	77.5	81.9
Credit balances of factoring clients	1,278.4	1,256.5
Other liabilities	2,818.1	2,687.8
Long-term borrowings, including $2,454.9 and $1,425.9 contractually due within twelve months at September 30, 2013 and December 31, 2012	21,390.2	21,961.8
Total Liabilities	**37,370.3**	**35,672.5**
Stockholders Equity		
Common stock: $0.01 par value, 600,000,000 authorized		
Issued: 202,146,483 and 201,283,063 at September 30, 2013 and December 31, 2012	2.0	2.0
Outstanding: 200,302,140 and 200,868,802 at September 30, 2013 and December 31, 2012		
Paid-in capital	8,543.1	8,501.8
Retained earnings / (Accumulated deficit)	471.2	(74.6)
Accumulated other comprehensive loss	(88.0)	(77.7)
Treasury stock: 1,844,343 and 414,261 shares at September 30, 2013 and December 31, 2012 at cost	(83.3)	(16.7)
Total Common Stockholders Equity	8,845.0	8,334.8
Noncontrolling minority interests	8.7	4.7
Total Equity	**8,853.7**	**8,339.5**
Total Liabilities and Equity	**$46,224.0**	**$44,012.0**

(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 interests 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.*

Assets		
Cash and interest bearing deposits, restricted	$ 598.0	$ 751.5
Assets held for sale	159.7	8.7
Total loans, net of allowance for loan losses	6,219.2	7,135.5
Operating lease equipment, net	4,466.4	4,508.8

Total Assets	**$11,443.3**	**$12,404.5**
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$ 8,032.4	$ 9,241.3
Total Liabilities	**$ 8,032.4**	**$ 9,241.3**

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) (dollars in millions except per share data)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	**2012**	**2013**	**2012**
Interest income				
Interest and fees on loans	$ 330.6	$ 367.5	$ 1,024.5	$ 1,188.3
Interest and dividends on interest bearing deposits and investments	6.8	8.0	20.3	23.8
Interest income	337.4	375.5	1,044.8	1,212.1
Interest expense				
Interest on long-term borrowings	(233.8)	(777.6)	(720.0)	(2,420.8)
Interest on deposits	(44.2)	(38.4)	(131.3)	(110.0)
Interest expense	(278.0)	(816.0)	(851.3)	(2,530.8)
Net interest revenue	59.4	(440.5)	193.5	(1,318.7)
Provision for credit losses	(16.4)		(50.5)	(51.5)
Net interest revenue, after credit provision	43.0	(440.5)	143.0	(1,370.2)
Non-interest income				
Rental income on operating leases	441.1	445.8	1,338.4	1,332.6
Other income	104.8	86.7	254.2	481.4
Total non-interest income	545.9	532.5	1,592.6	1,814.0
Total revenue, net of interest expense and credit provision	588.9	92.0	1,735.6	443.8
Other expenses				
Depreciation on operating lease equipment	(143.0)	(134.5)	(427.6)	(402.9)
Operating expenses	(232.2)	(235.2)	(697.2)	(686.3)
Loss on debt extinguishments		(16.8)		(61.2)
Total other expenses	(375.2)	(386.5)	(1,124.8)	(1,150.4)
Income (loss) before provision for income taxes	213.7	(294.5)	610.8	(706.6)
Provision for income taxes	(13.9)	(3.9)	(61.3)	(89.6)
Income (loss) before noncontrolling interests	199.8	(298.4)	549.5	(796.2)
Net income attributable to noncontrolling interests, after tax	(0.2)	(0.8)	(3.7)	(2.9)
Net Income (loss)	$ 199.6	$ (299.2)	$ 545.8	$ (799.1)

	Quarters Ended September 30,		Nine Months Ended September 30,	
Basic income (loss) per common share	$ 0.99	$ (1.49)	$ 2.71	$ (3.98)
Diluted income (loss) per common share	$ 0.99	$ (1.49)	$ 2.70	$ (3.98)
Average number of common shares basic (thousands)	200,811	200,917	201,089	200,877
Average number of common shares diluted (thousands)	202,329	200,917	202,139	200,877

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited) (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income (loss) before noncontrolling interests	$199.8	$(298.4)	$549.5	$(796.2)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(1.7)	4.0	(9.0)	(6.3)
Changes in fair values of derivatives qualifying as cash flow hedges				0.6
Net unrealized gains (losses) on available for sale securities	(0.4)	0.5	(1.7)	1.1
Changes in benefit plans net gain (loss) and prior service (cost)/credit	(0.4)	0.5	0.4	1.2
Other comprehensive income (loss), net of tax	(2.5)	5.0	(10.3)	(3.4)
Comprehensive income (loss) before noncontrolling interests	197.3	(293.4)	539.2	(799.6)
Comprehensive income attributable to noncontrolling interests	(0.2)	(0.8)	(3.7)	(2.9)
Comprehensive income (loss)	$197.1	$(294.2)	$535.5	$(802.5)

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited) (dollars in millions)

	Common Stock	Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2012	**$2.0**	**$8,501.8**	**$ (74.6)**	**$(77.7)**	**$(16.7)**	**$ 4.7**	**$8,339.5**
Net income			545.8			3.7	549.5
Other comprehensive loss, net of tax				(10.3)			(10.3)
Amortization of restricted stock, stock option and performance shares expenses and shares withheld to cover taxes upon vesting		40.5			(15.2)		25.3
Repurchase of common stock					(51.4)		(51.4)
Employee stock purchase plan		0.8					0.8
Distribution of earnings and capital						0.3	0.3
September 30, 2013	**$2.0**	**$8,543.1**	**$ 471.2**	**$(88.0)**	**$(83.3)**	**$ 8.7**	**$8,853.7**
December 31, 2011	**$2.0**	**$8,459.3**	**$ 517.7**	**$(82.6)**	**$(12.8)**	**$ 2.5**	**$8,886.1**
Net income (loss)			(799.1)			2.9	(796.2)
Other comprehensive income, net of tax				(3.4)			(3.4)
Amortization of restricted stock and stock option expenses		30.8			(3.9)		26.9
Employee stock purchase plan		0.9					0.9
Distribution of earnings and capital						(0.5)	(0.5)
September 30, 2012	**$2.0**	**$8,491.0**	**$(281.4)**	**$(86.0)**	**$(16.7)**	**$ 4.9**	**$8,113.8**

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (dollars in millions)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Cash Flows From Operations		
Net income (loss)	$ 545.8	$ (799.1)
Adjustments to reconcile net income (loss) to net cash flows from operations:		
Provision for credit losses	50.5	51.5
Net depreciation, amortization and (accretion)	521.3	1,733.3
Net gains on equipment, receivable and investment sales	(115.6)	(271.0)
Loss on debt extinguishments		21.1

	Nine Months Ended September 30,	
Provision for deferred income taxes	38.7	22.8
Decrease (increase) in finance receivables held for sale	139.8	(45.5)
Increase in other assets	(89.9)	(174.3)
Increase (decrease) in accrued liabilities and payables	182.1	(161.6)
Net cash flows provided by operations	1,272.7	377.2
Cash Flows From Investing Activities		
Loans originated and purchased	(13,083.0)	(13,362.6)
Principal collections of loans	10,797.6	11,695.4
Purchases of investment securities	(14,264.3)	(13,961.2)
Proceeds from maturities of investment securities	12,857.6	14,255.2
Proceeds from asset and receivable sales	1,465.0	3,404.6
Purchases of assets to be leased and other equipment	(1,275.4)	(1,228.0)
Net increase in short-term factoring receivables	22.0	5.8
Change in restricted cash	80.4	(212.7)
Net cash flows (used in) provided by investing activities	(3,400.1)	596.5
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	1,171.5	12,679.5
Repayments of term debt	(1,902.5)	(17,509.3)
Net increase in deposits	2,125.1	2,522.9
Collection of security deposits and maintenance funds	416.1	408.9
Use of security deposits and maintenance funds	(398.0)	(269.7)
Repurchase of common stock	(51.4)	
Net cash flows provided by (used in) financing activities	1,360.8	(2,167.7)
Decrease in cash and cash equivalents	(766.6)	(1,194.0)
Unrestricted cash and cash equivalents, beginning of period	5,636.2	6,565.7
Unrestricted cash and cash equivalents, end of period	**$ 4,869.6**	**$ 5,371.7**
Supplementary Cash Flow Disclosure		
Interest paid	$ (786.6)	$ (972.3)
Federal, foreign, state and local income taxes (paid) collected, net	$ (59.8)	$ 7.1
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$ 1,372.9	$ 1,342.9
Transfer of assets from held for sale to held for investment	$ 30.3	$ 0.5

The accompanying notes are an integral part of these consolidated financial statements.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 and offers vendor, equipment, commercial and structured financing products, as well as factoring and management advisory services. CIT became a bank holding company (BHC) in December 2008 and a financial holding company in July 2013. CIT is regulated by the Board of

Governors of the Federal Reserve System (FRS) 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 state-chartered bank located in Salt Lake City, Utah. The Company operates primarily in North America, with locations in Europe, South America and Asia.

BASIS OF PRESENTATION

Principles of Consolidation

The accompanying consolidated financial statements include financial information related to CIT Group Inc., a Delaware Corporation, and its majority owned subsidiaries, including the Bank, and those variable interest entities (VIEs) where the Company is the primary beneficiary. Assets held in an agency or fiduciary capacity are not included in the consolidated financial statements.

In preparing the consolidated financial statements, all significant intercompany accounts and transactions have been eliminated. These consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q for interim financial information and accordingly, do not include all information and note disclosures required by generally accepted accounting principles in the United States of America (GAAP) for complete financial statements. The financial statements in this Form 10-Q have not been audited by an independent registered public accounting firm in accordance with standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of CIT s financial position, results of operations and cash flows in accordance with GAAP. These consolidated financial statements should be read in conjunction with our current Form 10-K on file.

The consolidated financial statements include the effects of adopting Fresh Start Accounting (FSA) upon emergence from bankruptcy on December 10, 2009, as required by GAAP, based on a convenience date of December 31, 2009. Accretion and amortization of certain FSA adjustments are included in the Consolidated Statements of Operations and Cash Flows.

The accounting and financial reporting policies of CIT Group Inc. conform to GAAP and the preparation of the consolidated financial statements 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.

In preparing the quarterly financial statements for September 30, 2013, the Company discovered and corrected an immaterial error impacting the classification of *cash and due from banks* and *interest bearing deposits* in the amount of $430 million as of December 31, 2012. The reclassification error had no impact on the Company s statements of operations or cash flows for any periods.

NEW ACCOUNTING PRONOUNCEMENTS

Foreign Currency Matters

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2013-05, *Parent s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,* which provides that a cumulative translation adjustment (CTA) is attached to the parent s investment in a foreign entity and should be released in a manner consistent with the derecognition guidance on investments in entities. Thus, the entire amount of the CTA associated with the foreign entity would be released when there has been a:

- Sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity.
- Loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated).
- Step acquisition for a foreign entity (i.e., when an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity).

The ASU does not change the requirement to release a pro rata portion of the CTA of the foreign entity into earnings for a partial sale of an equity method investment in a foreign entity.

The guidance is effective for fiscal years (and interim periods within those fiscal years) beginning on or after December 15, 2013, with early adoption permitted. The ASU should be applied prospectively from the beginning of the fiscal year of adoption. The adoption of this guidance is not expected to have a significant impact on CIT s financial statements or disclosures.

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Federal Funds Effective Swap Rate Allowed as Benchmark Interest Rate

In July 2013, the FASB issued ASU No. 2013-10 *Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*, which permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under ASC 815, in addition to U.S. Treasury and LIBOR. The amended guidance also removed a previous scope reference that required the same benchmark interest rate be used for similar hedges and that using different rates be rare and justified. The amended guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The inclusion of the OIS as a benchmark rate had no immediate implication to CIT. At September 30, 2013, all our existing interest rate swaps reference LIBOR and do not receive hedge accounting treatment.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued ASU No. 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force). This pronouncement amends guidance on exceptions as to when an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward.*

To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date.

The amended guidance is effective for fiscal years (and interim periods within those fiscal years) beginning on or after December 15, 2013, with early adoption permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company will adopt the amended guidance on January 1, 2014. The Company is evaluating the impact of adoption of this guidance on its financial statements and disclosures.

NOTE 2 LOANS

Finance receivables consist of the following:

Finance Receivables by Product (dollars in millions)

	September 30, 2013	December 31, 2012
Loans[(1)]	$ 16,995.4	$ 16,082.3
Direct financing leases and leveraged leases[(1)]	4,827.3	4,765.3
Finance receivables	21,822.7	20,847.6
Finance receivables held for sale	885.5	302.8
Finance and held for sale receivables[(2)]	$ 22,708.2	$ 21,150.4

[1] *In the current quarter the Company discovered and corrected an immaterial error related to the classification of loans and leases at December 31, 2012.*

[2] *Assets held for sale on the Balance Sheet include both finance receivables and operating lease equipment. Balances in this disclosure include only finance receivables in Assets held for sale, which are measured at the lower of cost or fair value (i.e. do not include operating leases). ASU 2010-20 does not require inclusion of these finance receivables in the disclosures above. However, until they are disposed of, the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment so that Company data are tracked and used for management purposes on an aggregated basis as presented above.*

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents finance receivables by segment, based on obligor location:

Finance Receivables (dollars in millions)

	September 30, 2013			December 31, 2012		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Corporate Finance	$ 8,111.6	$1,121.2	$ 9,232.8	$ 7,159.8	$1,013.2	$ 8,173.0
Transportation Finance	1,036.8	936.8	1,973.6	1,219.8	633.4	1,853.2
Trade Finance	2,160.3	135.5	2,295.8	2,177.2	128.1	2,305.3
Vendor Finance	2,585.0	2,275.8	4,860.8	2,459.1	2,359.6	4,818.7
Consumer	3,450.3	9.4	3,459.7	3,687.3	10.1	3,697.4
Total	$17,344.0	$4,478.7	$21,822.7	$16,703.2	$4,144.4	$20,847.6

The following table presents selected components of the net investment in finance receivables.

Components of Net Investment in Finance Receivables (dollars in millions)

	September 30, 2013	**December 31, 2012**
Unearned income	$(921.1)	$(995.2)
Unamortized (discounts)	(50.5)	(40.5)
Net unamortized deferred costs and (fees)	54.5	51.4

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.

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. 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.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Finance and Held for Sale Receivables by Risk Rating (dollars in millions)

Grade:	Corporate Finance Other	Corporate Finance SBL	Transportation Finance	Trade Finance	Vendor Finance U.S.	Vendor Finance International	Total Commercial	Consumer
September 30, 2013								
Pass	$7,984.9	$148.9	$1,770.9	$1,784.6	$2,195.0	$2,318.4	$16,202.7	$3,055.4
Special mention	731.1	302.1	98.8	334.5	199.4	211.2	1,877.1	105.3
Classified accruing	323.3	77.4	114.0	170.1	145.7	79.9	910.4	299.0
Classified non-accrual	108.0	47.4		6.6	45.0	51.3	258.3	
Total	$9,147.3	$575.8	$1,983.7	$2,295.8	$2,585.1	$2,660.8	$19,248.5	$3,459.7
December 31, 2012								
Pass	$6,228.7	$166.1	$1,492.4	$1,913.2	$2,057.0	$2,340.5	$14,197.9	$3,254.1
Special mention	759.5	358.6	184.1	266.9	194.0	161.8	1,924.9	213.5
Classified accruing	408.2	96.7	136.2	119.2	160.4	77.7	998.4	229.8
Classified non-accrual	148.9	63.0	40.5	6.0	45.5	26.3	330.2	1.6
Total	$7,545.3	$684.4	$1,853.2	$2,305.3	$2,456.9	$2,606.3	$17,451.4	$3,699.0

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 30 Days or Greater	Current	Total Finance Receivables
September 30, 2013						
Commercial						
Corporate Finance Other	$ 30.6	$ 1.3	$ 0.3	$ 32.2	$ 9,115.1	$ 9,147.3
Corporate Finance SBL	2.2	4.4	7.9	14.5	561.3	575.8
Transportation Finance		1.4	0.5	1.9	1,981.8	1,983.7
Trade Finance	27.5	1.4	3.7	32.6	2,263.2	2,295.8
Vendor Finance U.S.	47.1	15.5	9.5	72.1	2,513.0	2,585.1
Vendor Finance International	50.6	18.6	24.3	93.5	2,567.3	2,660.8
Total Commercial	158.0	42.6	46.2	246.8	19,001.7	19,248.5
Consumer	104.4	72.5	226.2	403.1	3,056.6	3,459.7
Total	$262.4	$115.1	$272.4	$ 649.9	$22,058.3	$22,708.2
December 31, 2012						
Commercial						
Corporate Finance Other	$	$ 0.3	$ 4.0	$ 4.3	$ 7,541.0	$ 7,545.3
Corporate Finance SBL	18.0	2.9	12.5	33.4	651.0	684.4
Transportation Finance	4.0	0.9	0.7	5.6	1,847.6	1,853.2
Trade Finance	79.3	3.4	5.6	88.3	2,217.0	2,305.3
Vendor Finance U.S.	56.1	18.0	12.4	86.5	2,370.4	2,456.9
Vendor Finance International	55.2	12.3	8.2	75.7	2,530.6	2,606.3
Total Commercial	212.6	37.8	43.4	293.8	17,157.6	17,451.4
Consumer	135.2	80.8	231.7	447.7	3,251.3	3,699.0
Total	$347.8	$118.6	$275.1	$ 741.5	$20,408.9	$21,150.4

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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)

	September 30, 2013			December 31, 2012		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total
Commercial						
Corporate Finance Other	$ 96.1	$11.9	$108.0	$148.6	$0.3	$148.9
Corporate Finance SBL	6.5	40.9	47.4	60.3	2.7	63.0
Transportation Finance				40.5		40.5
Trade Finance	6.6		6.6	6.0		6.0

	September 30, 2013			December 31, 2012		
Vendor Finance U.S.	45.0		45.0	45.5		45.5
Vendor Finance International	43.7	7.6	51.3	24.3	2.0	26.3
Consumer					1.6	1.6
Total non-accrual loans	$197.9	$60.4	$258.3	$325.2	$6.6	$331.8
Repossessed assets			8.3			9.9
Total non-performing assets			$266.6			$341.7
Accruing loans past due 90 days or more						
Government guaranteed Consumer			$226.2			$231.4
Other			5.4			3.4
Total			$231.6			$234.8

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. Consumer loans and 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 120 150 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.

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Impaired Loans (dollars in millions)

	September 30, 2013			Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Recorded Investment
With no related allowance recorded:					
Commercial					
Corporate Finance Other	$149.0	$163.8	$	$155.6	$204.8
Corporate Finance SBL	7.8	8.0		23.0	41.1
Transportation Finance	9.1	9.1		8.6	6.9

				Nine Months Ended September 30,	
Trade Finance	9.7	9.7		10.3	34.6
Vendor Finance U.S.	3.8	3.9		4.7	8.5
Vendor Finance International	18.6	29.4		14.0	10.0
With an allowance recorded:					
Commercial					
Corporate Finance Other	52.8	53.3	30.5	82.5	113.1
Corporate Finance SBL				1.3	12.4
Transportation Finance				11.9	29.0
Trade Finance	6.5	6.5	2.0	4.7	13.8
Total Commercial Impaired Loans[(1)]	257.3	283.7	32.5	316.6	474.2
Total Loans Impaired at Convenience Date[(2)]	64.7	99.6	1.0	87.1	157.6
Total	$322.0	$383.3	$33.5	$403.7	$631.8

	December 31, 2012			Year Ended December 31, 2012
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial				
Corporate Finance Other	$179.9	$231.9	$	$199.8
Corporate Finance SBL	39.1	52.6		40.7
Transportation Finance	11.3	29.1		7.8
Trade Finance	10.1	13.3		29.7
Vendor Finance U.S.	4.7	12.2		7.7
Vendor Finance International	8.4	20.0		9.7
With an allowance recorded:				
Commercial				
Corporate Finance Other	102.4	106.7	32.3	111.0
Corporate Finance SBL	2.4	2.7	1.0	10.4
Transportation Finance	29.1	29.3	8.9	29.0
Trade Finance	6.0	6.0	1.3	12.2
Total Commercial Impaired Loans[(1)]	393.4	503.8	43.5	458.0
Total Loans Impaired at Convenience date[(2)]	106.7	260.8	1.5	147.4
Total	$500.1	$764.6	$45.0	$605.4

(1) *Interest income recorded while the loans were impaired was $13.8 million and $15.9 million for the nine months ended September 30, 2013 and September 30, 2012, respectively, of which $2.5 million and $3.6 million was recognized using the cash-basis method. Interest income recorded for the year ended December 31, 2012 while the loans were impaired was $21.3 million, of which $4.3 million was recognized using the cash-basis method of accounting.*

(2) *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.*

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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, or the present value of expected future cash flows discounted at the contract s effective interest rate. 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, finance receivables that were identified as impaired at the Convenience Date are presented separately below. The Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to loans considered impaired under FSA at the time of emergence.

Loans Acquired with Deteriorated Credit Quality (dollars in millions)

	September 30, 2013[1]			December 31, 2012[1]		
	Carrying Amount	Outstanding Balance[2]	Allowance for Loan Losses	Carrying Amount	Outstanding Balance[2]	Allowance for Loan Losses
Commercial	$64.7	$99.6	$1.0	$106.7	$260.8	$1.5
Total loans	$64.7	$99.6	$1.0	$106.7	$260.8	$1.5

[1] *The table excludes amounts in Assets held for sale with carrying amounts of $13 million and $3 million at September 30, 2013 and December 31, 2012, and outstanding balances of $29 million and $16 million at September 30, 2013 and December 31, 2012.*

[2] *Represents the sum of contractual principal and interest at the reporting date, calculated as pre-FSA net investment plus inception to date charge-offs.*

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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.

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 September 30, 2013 and December 31, 2012 was $239.2 million and $289.1 million, of which 31% and 29%, respectively were on non-accrual. Corporate Finance receivables accounted for 93% of the total TDRs at September 30, 2013 and 91% at December 31, 2012. At September 30, 2013 and December 31, 2012, there were $6.4 million and $6.3 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The tables that follow present additional information related to modifications qualifying as TDRs that occurred during the periods ended September 30, 2013 and 2012.

Recorded investment of TDRs that occurred during the periods ended September 30, 2013 and 2012 (dollars in millions)

	Quarters Ended September 30,		**Nine Months Ended September 30,**	
	2013	**2012**	**2013**	**2012**
Commercial				
Corporate Finance Other	$2.0	$22.7	$12.7	$31.3
Corporate Finance SBL	1.0	4.6	9.7	11.6

	Quarters Ended September 30,		Nine Months Ended September 30,	
Vendor Finance U.S.		0.2	0.1	2.4
Vendor Finance International		0.4	2.1	1.4
Total	$3.0	$27.9	$24.6	$46.7

Recorded investment of TDRs at the time of default that experienced a payment default[(1)] in the periods presented, and for which the payment default occurred within one year of the modification (dollars in millions)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Commercial				
Corporate Finance Other	$	$	$	$12.0
Corporate Finance SBL	1.5	1.0	1.5	3.7
Vendor Finance U.S.		0.1	0.2	0.5
Vendor Finance International	0.1	0.1	0.1	0.1
Total	$1.6	$1.2	$1.8	$16.3

[(1)] *Payment default in the table above is one missed payment.*

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 current quarter 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 September 30, 2013 and December 31, 2012, was comprised of payment deferral for 89% and 86%, covenant relief and/or other for 9% and 8%, and interest rate reductions and debt forgiveness for 2% and 6%, respectively;

- Payment deferrals, the Company s most common type of modification program, result in lower net present value of cash flows and increased provision for credit losses to the extent applicable. The financial impact of these modifications is not significant given the reduction to recorded investment balances from FSA discount and 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 nine months ended September 30, 2013 was immaterial;

- 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 the quarter and nine month periods ended September 30, 2013 approximated $9.4 million and $9.5 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 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.

CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 3 ALLOWANCE FOR LOAN LOSSES

The following table presents changes in the allowance for loan losses.

Allowance for Loan Losses and Recorded Investment in Finance Receivables (dollars in millions)

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Corporate and Other	Total
	Quarter Ended September 30, 2013							
Beginning balance	$221.9	$29.8	$27.4	$ 88.0	$367.1	$	$0.1	$367.2
Provision for credit losses	4.4	(0.7)	(0.8)	13.5	16.4			16.4
Other[1]	0.6	(0.4)	(1.4)	0.8	(0.4)			(0.4)
Gross charge-offs[2][3]	(9.1)	(1.2)	(0.7)	(25.6)	(36.6)			(36.6)
Recoveries	0.2	1.1	1.4	6.8	9.5			9.5
Allowance balance end of period	$218.0	$28.6	$25.9	$ 83.5	$356.0	$	$0.1	$356.1
	Quarter Ended September 30, 2012							
Beginning balance	$271.3	$28.5	$29.8	$ 84.6	$414.2	$	$	$414.2
Provision for credit losses	(22.0)	8.9	4.3	8.8				
Other[1]	3.4	0.5	(3.2)	1.0	1.7			1.7
Gross charge-offs[2]	(10.9)	(2.9)	(3.2)	(18.5)	(35.5)			(35.5)
Recoveries	5.9		3.2	8.4	17.5			17.5
Allowance balance end of period	$247.7	$35.0	$30.9	$ 84.3	$397.9	$	$	$397.9

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Corporate and Other	Total
	Nine Months Ended September 30, 2013							
Beginning balance	$229.9	$ 36.3	$27.4	$ 85.7	$ 379.3	$	$	$ 379.3
Provision for credit losses	24.5	(4.9)	(1.7)	32.7	50.6		(0.1)	50.5
Other[1]	(3.8)	(0.3)	(2.8)	(1.3)	(8.2)		0.2	(8.0)
Gross charge-offs[2][3]	(43.6)	(4.5)	(2.3)	(58.6)	(109.0)			(109.0)
Recoveries	11.0	2.0	5.3	25.0	43.3			43.3
Allowance balance end of period	$218.0	$ 28.6	$25.9	$ 83.5	$ 356.0	$	$ 0.1	$ 356.1
	Nine Months Ended September 30, 2012							
Beginning balance	$262.2	$ 29.3	$29.0	$ 87.3	$ 407.8	$	$	$ 407.8
Provision for credit losses	8.4	16.6	5.9	20.1	51.0	0.5		51.5
Other[1]	(4.7)	0.8	(1.4)	0.7	(4.6)			(4.6)

	Nine Months Ended September 30, 2013							
Gross charge-offs[2]	(36.5)	(11.7)	(6.6)	(51.9)	(106.7)	(1.0)		(107.7)
Recoveries	18.3		4.0	28.1	50.4	0.5		50.9
Allowance balance end of period	$247.7	$ 35.0	$30.9	$ 84.3	$ 397.9	$	$	$ 397.9

[1] [3] *See following table for footnote explanation.*

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Corporate and Other	Total
September 30, 2013								
Allowance balance:								
Loans individually evaluated for impairment	$ 30.5	$	$ 2.0	$	$ 32.5	$	$	$ 32.5
Loans collectively evaluated for impairment	187.0	28.6	23.9	83.0	322.5		0.1	322.6
Loans acquired with deteriorated credit quality[4]	0.5			0.5	1.0			1.0
Allowance balance end of period	$ 218.0	$ 28.6	$ 25.9	$ 83.5	$ 356.0	$	$0.1	$ 356.1
Other reserves[1]	$ 19.4	$ 0.9	$ 8.8	$	$ 29.1	$	$	$ 29.1
Finance receivables:								
Loans individually evaluated for impairment	$ 209.6	$ 9.1	$ 16.2	$ 22.4	$ 257.3	$	$	$ 257.3
Loans collectively evaluated for impairment	8,962.9	1,964.5	2,279.6	4,834.0	18,041.0	3,459.7		21,500.7
Loans acquired with deteriorated credit quality[4]	60.3			4.4	64.7			64.7
Ending balance	$9,232.8	$1,973.6	$2,295.8	$4,860.8	$18,363.0	$3,459.7	$	$21,822.7
Percent of loans to total loans	42.3%	9.0%	10.5%	22.3%	84.1%	15.9%		100.0%
September 30, 2012								
Allowance balance:								
Loans individually evaluated for impairment	$ 40.6	$ 9.4	$ 4.0	$	$ 54.0	$	$	$ 54.0
Loans collectively evaluated for	205.8	25.6	26.9	83.8	342.1			342.1

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Corporate and Other	Total
impairment								
Loans acquired with deteriorated credit quality[4]	1.3			0.5	1.8			1.8
Allowance balance end of period	$ 247.7	$ 35.0	$ 30.9	$ 84.3	$ 397.9	$	$	$ 397.9
Other reserves[1]	$ 14.4	$ 0.5	$ 7.4	$	$ 22.3	$	$	$ 22.3
Finance receivables:								
Loans individually evaluated for impairment	$ 369.7	$ 54.8	$ 27.2	$ 18.6	$ 470.3	$	$	$ 470.3
Loans collectively evaluated for impairment	7,328.7	1,736.1	2,381.1	4,598.7	16,044.6	3,754.3		19,798.9
Loans acquired with deteriorated credit quality[4]	102.0			10.7	112.7	1.5		114.2
Ending balance	$7,800.4	$1,790.9	$2,408.3	$4,628.0	$16,627.6	$3,755.8	$	$20,383.4
Percent of loans to total loans	38.3%	8.8%	11.8%	22.7%	81.6%	18.4%		100.0%

[1] *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,*

[2] *Gross charge-offs include $6.2 million and $16.5 million that were charged directly to the specific allowance for loan losses for the quarter and nine months ended September 30, 2013, respectively, related to Corporate Finance. Gross charge-offs include $11.5 million that were charged directly to the specific allowance for loan losses for the September 30, 2012 quarter, of which $8.6 million related to Corporate Finance and the remainder related to Transportation Finance. Amounts for the nine months ended September 30, 2012 include $25.4 million charged directly to the specific allowance, of which $16.7 million related to Corporate Finance, $7.9 million related to Transportation Finance and the remainder to Trade Finance.*

[3] *Corporate Finance gross charge-offs for the quarter and nine months ended September 30, 2013 include approximately $5 million and $27 million, respectively, of charge-offs related to the transfer of approximately $0.6 billion of loans to Assets held for sale. Vendor Finance gross charge-offs for the quarter and the nine months ended September 30, 2013 include approximately $7 million and $8 million, respectively, related to the transfer of approximately $250 million of loans to Assets held for sale.*

[4] *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).*

NOTE 4 INVESTMENT SECURITIES

Investments include debt and equity securities. The Company s debt securities primarily include U.S. Treasury securities, U.S. Government Agency securities, supranational 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)

	September 30, 2013	December 31, 2012
Debt securities available-for-sale	$1,418.5	$ 767.6
Equity securities available-for-sale	13.3	14.3
Debt securities held-to-maturity[1]	978.3	188.4
Non-marketable equity investments[2]	88.8	95.2
Total investment securities	$2,498.9	$1,065.5

[1] *Recorded at amortized cost less impairment on securities that have credit-related impairment.*

[2] *Non-marketable equity investments include $23.5 million and $27.6 million in limited partnerships at September 30, 2013 and December 31, 2012, 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.*

Debt securities and equity securities classified as available-for-sale (AFS) are carried at fair value with changes in fair value reported in other comprehensive income (OCI), net of applicable income taxes.

Debt securities classified as held-to-maturity (HTM) represent securities that the Company has both the ability and intent to hold until maturity, and are carried at amortized cost.

Non-marketable equity investments include ownership interests greater than 3% in limited partnership investments that are accounted for under the equity method. Equity method investments are recorded at cost, adjusted to reflect the Company s portion of income, loss or dividends of the investee. All other non-marketable equity investments are carried at cost and periodically assessed for other-than-temporary impairment (OTTI).

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is OTTI. 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.

Realized investment gains totaled $1.0 million and $5.0 million for the quarters ended September 30, 2013 and 2012, respectively, and exclude losses from OTTI. Realized investment gains totaled $4.9 million and $28.4 million for the nine month periods ended September 30, 2013 and 2012, respectively. OTTI credit-related impairments on equity securities recognized in earnings were not material for the quarters and nine month periods ended September 30, 2013 and September 30, 2012. Impairment amounts in accumulated other comprehensive income (AOCI) were not material at September 30, 2013 or December 31, 2012.

In addition, the Company maintained $4.5 billion and $5.9 billion of interest bearing deposits at September 30, 2013 and December 31, 2012, respectively that 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)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income interest bearing deposits	$4.0	$5.7	$11.8	$15.7

	Quarters Ended September 30,		Nine Months Ended September 30,	
Interest income investments	2.1	1.7	5.8	6.1
Dividends investments	0.7	0.6	2.7	2.0
Total interest and dividends	$6.8	$8.0	$20.3	$23.8

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Securities Available-for-Sale

The following table presents amortized cost and fair value of securities AFS at September 30, 2013 and December 31, 2012.

Securities Available for Sale Amortized Cost and Fair Value (dollars in millions)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2013				
Debt securities AFS				
U.S. Treasury securities	$ 658.3	$	$	$ 658.3
U.S. government agency obligations	250.0			250.0
Supranational and foreign government securities	510.2			510.2
Total debt securities AFS	1,418.5			1,418.5
Equity securities AFS	13.3			13.3
Total securities AFS	$1,431.8	$	$	$1,431.8
December 31, 2012				
Debt securities AFS				
U.S. Treasury securities	$ 750.3	$	$	$ 750.3
Supranational and foreign government securities	17.3			17.3
Total debt securities AFS	767.6			767.6
Equity securities AFS	13.1	1.2		14.3
Total securities AFS	$ 780.7	$1.2	$	$ 781.9

Debt Securities Held-to-Maturity

The carrying value and fair value of debt securities HTM at September 30, 2013 and December 31, 2012 were as follows:

Debt Securities Held-to-Maturity Carrying Value and Fair Value (dollars in millions)

	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value

September 30, 2013				
U.S. government agency obligations	$735.4	$0.2	$	$735.6
Mortgage-backed securities U.S. government owned and sponsored agencies	99.3	2.0	(4.6)	96.7
State and municipal	57.4		(2.7)	54.7
Foreign government	37.7	0.2		37.9
Corporate foreign	48.5			48.5
Total debt securities held-to-maturity	$978.3	$2.4	$(7.3)	$973.4
December 31, 2012				
Mortgage-backed securities U.S. government owned and sponsored agencies	$ 96.5	$3.1	$(0.3)	$ 99.3
State and municipal	13.1			13.1
Foreign government	28.4			28.4
Corporate foreign	50.4			50.4
Total debt securities held-to-maturity	$188.4	$3.1	$(0.3)	$191.2

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The following table presents the carrying value and fair value of debt securities HTM by contractual maturity dates:

Debt Securities Held-to-Maturity Carrying Value and Fair Value Maturities (dollars in millions)

	September 30, 2013		December 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
U.S. government sponsored agency obligations				
Total Due within 1 year	$735.4	$735.6	$	$
Mortgage-backed securities U.S. government owned and sponsored agencies				
Total Due after 10 years[(1)]	99.3	96.7	96.5	99.3
State and municipal				
Due within 1 year	0.7	0.7		
Due after 1 but within 5 years	4.4	4.4	4.9	4.9
Due after 5 but within 10 years	0.7	0.7	1.4	1.4
Due after 10 years[(1)]	51.6	48.9	6.8	6.8
Total	57.4	54.7	13.1	13.1
Foreign government				
Due within 1 year	30.5	30.6	25.5	25.4
Due after 1 but within 5 years	7.2	7.3	2.9	3.0
Total	37.7	37.9	28.4	28.4
Corporate foreign				
Total Due after 5 but within 10 years	48.5	48.5	50.4	50.4

	September 30, 2013		December 31, 2012	
Total debt securities held-to-maturity	$978.3	$973.4	$188.4	$191.2

(1) *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.*

NOTE 5 LONG-TERM BORROWINGS

The following table presents outstanding long-term borrowings, net of FSA. The FSA fair value adjustment is amortized as a cost adjustment over the remaining term of the respective debt and is reflected in Interest Expense.

Long-term Borrowings (dollars in millions)

	September 30, 2013			December 31, 2012
	CIT Group Inc.	Subsidiaries	Total	Total
Senior Unsecured Notes(1)	$12,531.5	$	$12,531.5	$11,824.0
Secured Borrowings		8,858.7	8,858.7	10,137.8
Total Long-term Borrowings	$12,531.5	$8,858.7	$21,390.2	$21,961.8

(1) *Senior Unsecured Notes at September 30, 2013 were comprised of $7,242.8 million of Unsecured Notes issued after March 9, 2012, $5,250 million of Series C Notes and $38.7 million of other unsecured debt.*

Revolving Credit Facility

There were no outstanding borrowings under the Revolving Credit Facility at September 30, 2013 and December 31, 2012 and the amount available to draw upon at each period was approximately $1.9 billion, with the remaining amount of approximately $0.1 billion utilized for issuance of letters of credit.

The total commitment amount under the Revolving Credit Facility is $2 billion, consisting of a $1.65 billion revolving loan tranche and a $350 million revolving loan tranche that can also be utilized for issuance of letters of credit. The Revolving Credit Facility matures on August 14, 2015 and accrues interest at a per annum rate of LIBOR plus a margin of 2.00% to 2.75% (with no floor) or Base Rate plus a margin of 1.00% to 1.75% (with no floor). The applicable margin is determined by reference to the current long-term senior unsecured, non-credit enhanced debt rating of the Company by S&P and Moody s. The applicable margin for LIBOR loans was 2.50% and the applicable margin for Base Rate loans was 1.50% at September 30, 2013.

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 facility is currently guaranteed by eight of the Company s domestic operating subsidiaries and subject to an asset coverage covenant (based on the book value of eligible assets of the Continuing Guarantors) of 2.0x the sum of: (i) the committed facility size and (ii) all outstanding indebtedness (including, without duplication, guarantees of such indebtedness) for borrowed money (excluding subordinated intercompany indebtedness) of the Continuing Guarantors, tested monthly and upon certain dispositions or encumbrances of eligible assets of the Continuing Guarantors.

The Revolving Credit Facility is also subject to a $6 billion minimum consolidated net worth covenant of the Company, tested quarterly, and 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.

Senior Unsecured Notes

Senior unsecured notes include notes issued under the shelf registration filed in March 2012, and Series C Unsecured Notes. 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)

Maturity Date	Rate (%)	Date of Issuance	Par Value
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
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	4.91%		$ 7,250.0

Series C Unsecured Notes (dollars in millions)

Maturity Date	Rate (%)	Date of Issuance	Par Value
March 2014	5.250%	March 2011	$ 1,300.0
February 2015	4.750%	February 2012	1,500.0
March 2018	6.625%	March 2011	700.0
February 2019	5.500%	February 2012	1,750.0
Weighted average and total	5.37%		$ 5,250.0

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.

Other debt of $38.7 million includes senior unsecured notes issued prior to CIT s reorganization.

Secured Borrowings

Set forth below are borrowings and pledged assets 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.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Secured Borrowings and Pledged Assets Summary (dollars in millions)

	September 30, 2013		December 31, 2012	
	Secured Borrowing	Pledged Assets	Secured Borrowing	Pledged Assets
Consumer[(1)]	$3,348.9	$ 3,514.6	$ 3,630.9	$ 3,772.8
Trade Finance	334.7	1,641.1	350.8	1,523.6
Corporate Finance[(1)]	587.1	804.4	933.9	1,190.6
Vendor Finance U.S.	364.9	506.7	574.6	765.4
Vendor Finance International	824.2	981.6	1,028.4	1,182.9
Subtotal Finance Receivables	5,459.8	7,448.4	6,518.6	8,435.3
Transportation Finance Aircraft	2,369.5	4,046.9	2,560.3	4,049.1
Transportation Finance Rail	943.6	1,169.8	976.8	1,185.0
Subtotal Equipment under operating leases[(1)]	3,313.1	5,216.7	3,537.1	5,234.1
Investment Securities	85.8	95.9	82.1	83.3
Total	$8,858.7	$12,761.0	$10,137.8	$13,752.7

(1) *At September 30, 2013 GSI TRS related borrowings and pledged assets, respectively, of $847.3 million and $937.6 million were included in Consumer, $80.4 million and $244.8 million in Corporate Finance, and $1.02 billion and $2.01 billion in Transportation Finance. The GSI TRS is described in Note 6 Derivative Financial Instruments.*

Variable Interest Entities

The Company utilizes VIEs in the ordinary course of business to support its own and its customers financing needs.

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. 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 sell 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.

Investors 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 secured financings, the Company records an allowance for loan losses for the credit risks associated with the underlying leases and loans. As these are secured borrowings, CIT 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 VIE s 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 only to pay such liabilities.

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

As part of managing economic risk and exposure to interest rate and foreign currency risk, the Company 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 obligations, which became effective April 10, 2013, apply to a limited number of derivative transactions executed with its lending customers in order to mitigate their interest rate risk.

See *Note 1 Business and Summary of Significant Accounting Policies* in our December 31, 2012 Form 10-K for further description of the Company s derivative transaction policies.

The following table presents fair values and notional values of derivative financial instruments:

Fair and Notional Values of Derivative Financial Instruments[1] (dollars in millions)

	September 30, 2013			December 31, 2012		
	Notional Amount	**Asset Fair Value**	**Liability Fair Value**	**Notional Amount**[2]	**Asset Fair Value**	**Liability Fair Value**
Qualifying Hedges						
Cross currency swaps net investment hedges	$ 145.5	$ 0.1	$ (0.4)	$ 151.2	$	$ (6.1)
Foreign currency forward contracts cash flow hedges	3.8		(0.2)	11.7		(0.9)
Foreign currency forward contracts net investment hedges	1,404.6	12.5	(19.7)	1,232.6	1.9	(31.5)
Total Qualifying Hedges	1,553.9	12.6	(20.3)	1,395.5	1.9	(38.5)
Non-Qualifying Hedges						
Cross currency swaps	135.8	2.2		552.8	1.7	(11.0)
Interest rate swaps	1,321.0	5.6	(29.3)	809.6	0.6	(39.3)
Written options	498.0		(0.9)	251.4		(0.1)
Purchased options	894.1	1.4		502.7	0.3	
Foreign currency forward contracts	2,101.0	8.0	(39.3)	1,853.8	5.7	(25.7)
TRS	391.0		(8.0)	106.6		(5.8)
Equity Warrants	1.0	0.3		1.0	0.1	
Total Non-qualifying Hedges	5,341.9	17.5	(77.5)	4,077.9	8.4	(81.9)
Total Hedges	$6,895.8	$30.1	$(97.8)	$5,473.4	$10.3	$(120.4)

[(1)] *Presented on a gross basis*

[(2)] *Conformed to current period presentation using spot rates to calculate notional amounts.*

Total Return Swap (TRS)

Two financing facilities with 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 aggregate notional amounts of the TRS of $391.0 million at September 30, 2013 and $106.6 million at December 31, 2012 represent the aggregate unused portions under the two 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 $1,734.0 million at September 30, 2013 and $2,018.4 million at December 31, 2012. 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.

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, including prepayment assumptions, 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 $8.0 million and $5.8 million was recorded at September 30, 2013 and December 31, 2012, respectively. The change in value is recorded in other income in the statement of operations.

Impact of Collateral and Netting Arrangements on the Total Derivative Portfolio

The following tables present a summary, as at September 30, 2013 and December 31, 2012, of the gross amounts of recognized financial assets and liabilities; the amounts offset under current GAAP 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 the entire derivative portfolio is under an International Swaps and Derivatives Association (ISDA) agreement.

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Offsetting of Derivative Assets and Liabilities (dollars in millions)

	Gross Amounts not offset in the Consolidated Balance Sheet

	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount Presented in the Consolidated Balance Sheet	Gross Amounts not offset in the Consolidated Balance Sheet: Derivative Financial Instruments[5]	Gross Amounts not offset in the Consolidated Balance Sheet: Cash Collateral Pledged/(Received)[5][6]	Net Amount
September 30, 2013						
Derivative assets[1]	$ 30.1	$	$ 30.1	$ (21.5)	$ (3.3)	$ 5.3
Derivative liabilities[2]	(97.8)		(97.8)	21.5	36.9	(39.4)
December 31, 2012						
Derivative assets[3]	$ 10.3	$	$ 10.3	$ (7.6)	$ (1.7)	$ 1.0
Derivative liabilities[4]	(120.4)		(120.4)	8.0	73.3	(39.1)

(1) *Includes $12.6 million of qualifying hedges reported in other assets and $17.5 million reported in Trading assets at fair value derivatives.*

(2) *Includes $(20.3) million of qualifying hedges reported in other liabilities and $(77.5) million reported in Trading liabilities at fair value derivatives.*

(3) *Includes $1.9 million of qualifying hedges reported in other assets and $8.4 million reported in Trading assets at fair value derivatives.*

(4) *Includes $(38.5) million of qualifying hedges reported in other liabilities and $(81.9) million reported in Trading liabilities at fair value derivatives.*

(5) *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 the event of default by one of the counterparties.*

(6) *Collateral pledged or received is included in Other assets or Other liabilities, respectively.*

The following table presents the impact of derivatives on the statements of operations:

Derivative Instrument Gains and Losses (dollars in millions)

Derivative Instruments	Gain/(Loss) Recognized	Quarters Ended September 30, 2013	Quarters Ended September 30, 2012	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Qualifying Hedges					
Foreign currency forward contracts cash flow hedges	Other income	$	$ (0.9)	$ 0.7	$ 1.1
Total Qualifying Hedges			(0.9)	0.7	1.1
Non Qualifying Hedges					
Cross currency swaps	Other income	(2.7)	(16.5)	7.3	(12.0)

		Quarters Ended September 30,		Nine Months Ended September 30,	
Interest rate swaps	Other income	3.3	(1.9)	15.0	(2.7)
Interest rate options	Other income	(0.2)	(0.2)		(0.7)
Foreign currency forward contracts	Other income	(60.9)	(11.2)	(15.5)	(16.7)
Equity warrants	Other income	0.1	0.1	0.3	0.2
TRS	Other income			(2.2)	
Total Non-qualifying Hedges		(60.4)	(29.7)	4.9	(31.9)
Total derivatives-income statement impact		$(60.4)	$(30.6)	$ 5.6	$(30.8)

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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 ineffectiveness recorded directly in income**	**Total income statement impact**	**Derivatives effective portion recorded in OCI**	**Total change in OCI for period**
Quarter Ended September 30, 2013					
Foreign currency forward contracts cash flow hedges	$	$	$	$	$
Foreign currency forward contracts net investment hedges	0.1		0.1	(40.5)	(40.6)
Cross currency swaps net investment hedges				(2.9)	(2.9)
Total	$ 0.1	$	$ 0.1	$(43.4)	$(43.5)
Quarter Ended September 30, 2012					
Foreign currency forward contracts cash flow hedges	$(0.9)	$	$(0.9)	$ (0.9)	$
Foreign currency forward contracts net investment hedges	(5.2)		(5.2)	(42.5)	(37.3)
Cross currency swaps net investment hedges				(12.8)	(12.8)
Total	$(6.1)	$	$(6.1)	$(56.2)	$(50.1)
Nine Months Ended September 30, 2013					
Foreign currency forward contracts cash flow hedges	$ 0.7	$	$ 0.7	$ 0.7	$
Foreign currency forward contracts net investment hedges	(7.7)		(7.7)	3.5	11.2
Cross currency swaps net investment hedges	(0.1)		(0.1)	5.8	5.9
Total	$(7.1)	$	$(7.1)	$ 10.0	$ 17.1
Nine Months Ended September 30, 2012					
Foreign currency forward contracts cash flow hedges	$ 1.2	$	$ 1.2	$ 1.8	$ 0.6
Foreign currency forward contracts net investment hedges	(1.9)		(1.9)	(47.8)	(45.9)

Contract Type	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Cross currency swaps net investment hedges				(15.5)	(15.5)
Total	$(0.7)	$	$(0.7)	$(61.5)	$(60.8)

The estimated amount of net losses on cash flow hedges recorded in AOCI at September 30, 2013 expected to be recognized in income over the next 12 months is not significant.

NOTE 7 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* in our December 31, 2012 Form 10-K for further description of the Company s 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
September 30, 2013				
Assets				
Debt Securities AFS	$1,418.5	$11.2	$1,407.3	$
Equity Securities AFS	13.3	13.3		
Trading assets at fair value derivatives	17.5		17.5	
Derivative counterparty assets at fair value	12.6		12.6	
Total Assets	$1,461.9	$24.5	$1,437.4	$
Liabilities				
Trading liabilities at fair value derivatives	$ (77.5)	$	$ (69.5)	$(8.0)
Derivative counterparty liabilities at fair value	(20.3)		(20.3)	
Total Liabilities	$ (97.8)	$	$ (89.8)	$(8.0)
December 31, 2012				
Assets				
Debt Securities AFS	$ 767.6	$17.3	$ 750.3	$
Equity Securities AFS	14.3	14.3		
Trading assets at fair value derivatives	8.4		8.4	
Derivative counterparty assets at fair value	1.9		1.9	
Total	$ 792.2	$31.6	$ 760.6	$

	Total	Level 1	Level 2	Level 3
September 30, 2013				
Liabilities				
Trading liabilities at fair value derivatives	$ (81.9)	$	$ (76.1)	$ (5.8)
Derivative counterparty liabilities at fair value	(38.5)		(38.5)	
Total	$ (120.4)	$	$ (114.6)	$ (5.8)

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	Level 1	Level 2	Level 3	Total Gains and (Losses)
Assets					
September 30, 2013					
Assets held for sale	$ 1,067.4	$	$	$ 1,067.4	$ (44.6)
Impaired loans	24.0			24.0	(6.5)
Total	$ 1,091.4	$	$	$ 1,091.4	$ (51.1)
December 31, 2012					
Assets held for sale	$ 296.7	$	$	$ 296.7	$ (106.9)
Impaired loans	61.0			61.0	(40.9)
Total	$ 357.7	$	$	$ 357.7	$ (147.8)

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

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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)

	Total	Derivatives
December 31, 2012	$(5.8)	$(5.8)
Gains or losses realized/unrealized		
Included in Other Income	(2.2)	(2.2)
September 30, 2013	$(8.0)	$(8.0)

Level 3 liabilities at September 30, 2013 represent the valuation of the derivatives related to the GSI facilities. There were no changes in fair value of Level 3 assets or liabilities measured on a recurring basis at September 30, 2012.

Fair Values of Financial Instruments

The carrying and estimated fair values of financial instruments presented below exclude leases and certain other assets and liabilities, for which disclosure is not required.

Estimated Fair Value of Assets and Liabilities (dollars in millions)

	September 30, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets				
Trading assets at fair value derivatives	$ 17.5	$ 17.5	$ 8.4	$ 8.4
Derivative counterparty assets at fair value	12.6	12.6	1.9	1.9
Assets held for sale (excluding leases)	507.2	507.8	58.3	61.9
Loans (excluding leases)[(4)]	15,768.5	15,882.2	15,941.9	16,177.7
Investment Securities	2,498.9	2,494.0	1,065.5	1,068.3
Other assets subject to fair value disclosure and unsecured counterparty receivables[(1)]	1,015.7	1,015.7	1,084.0	1,084.0
Liabilities				
Deposits[(2)]	(11,846.4)	(11,979.3)	(9,721.8)	(9,931.8)
Trading liabilities at fair value derivatives	(77.5)	(77.5)	(81.9)	(81.9)
Derivative counterparty liabilities at fair value	(20.3)	(20.3)	(38.5)	(38.5)
Long-term borrowings[(2)]	(21,549.4)	(22,118.2)	(22,161.4)	(23,180.8)
Other liabilities subject to fair value disclosure[(3)]	(1,907.0)	(1,907.0)	(1,953.1)	(1,953.1)

[(1)] *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.*

[(2)] *Deposits and long-term borrowings include accrued interest, which is included in Other liabilities in the Balance Sheet.*

[(3)] *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 approximates carrying value and are classified as level 3.*

[(4)]

In the current quarter the Company discovered and corrected an immaterial error related to the classification of loans and leases at December 31, 2012.

Assumptions Used to Value Financial Instruments

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 that utilized Level 3 inputs. See *Note 6 Derivative Financial Instruments* for notional principal amounts and fair values.

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.

Assets held for sale Assets held for sale are recorded at 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 Since there is no liquid secondary market for most loans in the Company s portfolio, the fair value is estimated based on discounted cash flow analyses which use Level 3 inputs. 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. For the consumer loan portfolio, the discount spread is derived based on the company s estimate of a market participant s required return on equity that incorporates credit loss estimates based on expected and current default rates. 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 September 30, 2013 was $15.9 billion, which is 100.7% of carrying value. At September 30, 2013 the fair value of the commercial loans portfolio was $12.2 billion, 99.1% of carrying value, and the fair value of the consumer portfolio was $3.7 billion, 106.6% 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 September 30, 2013, 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 $383.3 million. Including related allowances, these loans are carried at $288.5 million, or 75% of UPB. Of these amounts, $223.9 million and $198.0 million of UPB and carrying value, respectively, 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 2 Loans* for more information.

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 borrowings of approximately $12.5 billion par value at September 30, 2013, were valued based on quoted market prices, which are Level 1 inputs. Approximately $5.5 billion par value of the secured borrowings at September 30, 2013 utilized market inputs to estimate fair value, which are Level 2 inputs. Where market estimates were not available for approximately $3.6 billion par value at September 30, 2013, fair 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.

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NOTE 8 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 September 30, 2013.

Tier 1 Capital and Total Capital Components (dollars in millions)

	CIT		CIT Bank	
Tier 1 Capital	**September 30, 2013**	**December 31, 2012**	**September 30, 2013**	**December 31, 2012**
Total stockholders equity	$ 8,845.0	$ 8,334.8	$ 2,553.3	$ 2,437.2
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital	42.5	41.1		(0.4)
Adjusted total equity	8,887.5	8,375.9	2,553.3	2,436.8
Less: Goodwill	(341.2)	(345.9)		
Disallowed intangible assets	(22.4)	(32.7)		
Investment in certain unconsolidated subsidiaries	(33.1)	(34.4)		
Other Tier 1 components[(1)]	(39.7)	(68.0)		(14.3)
Tier 1 Capital	8,451.1	7,894.9	2,553.3	2,422.5
Tier 2 Capital				
Qualifying allowance for credit losses and other reserves[(2)]	385.2	402.6	172.8	141.2
Less: Investment in certain unconsolidated subsidiaries	(33.1)	(34.4)		
Other Tier 2 components[(3)]		0.5		0.3
Total qualifying capital	$ 8,803.2	$ 8,263.6	$ 2,726.1	$ 2,564.0
Risk-weighted assets	$ 50,533.0	$ 48,580.1	$ 13,787.7	$ 11,289.1
Total Capital (to risk-weighted assets):				

	CIT		CIT Bank	
Actual	17.4%	17.0%	19.8%	22.7%
Required Ratio for Capital Adequacy Purposes	8.0%	8.0%	8.0%	8.0%
Tier 1 Capital (to risk-weighted assets):				
Actual	16.7%	16.3%	18.5%	21.5%
Required Ratio for Capital Adequacy Purposes	4.0%	4.0%	4.0%	4.0%
Tier 1 Leverage Ratio:				
Actual	18.7%	18.3%	17.9%	20.2%
Required Ratio for Capital Adequacy Purposes	4.0%	4.0%	4.0%	4.0%

(1) *Includes the portion of net deferred tax assets that does not qualify for inclusion in Tier 1 capital based on the capital guidelines, 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).*

(2) *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.*

(3) *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.*

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 9 INCOME TAXES

The Company s third quarter tax provision was $13.9 million, compared to $3.9 million in the year-ago quarter. The current quarter s tax provision primarily reflected income tax expense on the earnings of certain international operations and state income tax expense in the U.S. The $3.9 million provision for the third quarter of 2012 was primarily driven by changes in the geographic mix of earnings.

The Company s tax provision was $61.3 million for the nine months ended September 30, 2013 compared to $89.6 million in the prior year period. The decrease from the prior year was primarily a result of the reduction in foreign income tax expense on lower international earnings combined with reduction in net discrete tax expense. Included in the year-to-date tax provision is approximately $12.2 million of net discrete tax expense that primarily related to the establishment of valuation allowances against certain international net deferred tax assets due to our international platform rationalizations, partially offset by incremental tax benefits associated with favorable settlements of prior year international tax audits.

The change in the effective tax rate each period is impacted by a number of factors, including the relative mix of domestic and foreign earnings, valuation allowances in various jurisdictions, and discrete items. The actual year-end 2013 effective tax rate may vary from the currently projected tax rate due to the changes in the factors mentioned above.

As of December 31, 2012, CIT had cumulative U.S. federal net operating loss carry-forwards (NOLs) of $4.9 billion, of which $2.3 billion was related to pre-emergence losses. These NOLs will expire beginning in 2027 through 2032. The Company generated a modest amount of domestic taxable earnings year-to-date, which decreased the U.S. federal net operating loss carry-forwards and its respective valuation allowance. The Company has not recognized any tax benefit on its prior year domestic losses due to uncertainties related to the ability to realize its net deferred tax assets in the future. Pursuant to Section 382 of the Internal Revenue Code, the Company is generally subject to a $230 million annual limitation on the use of its $2.3 billion of pre-emergence NOLs. NOLs arising in post-emergence years are not subject to this limitation absent another ownership change as defined by the Internal Revenue Service (IRS) for U.S. tax purposes.

At December 31, 2012, the Company maintained a valuation allowance of $1.6 billion against its net deferred tax assets. Of the $1.6 billion valuation allowance, approximately $1.4 billion related to domestic reporting entities and approximately $190 million related to foreign reporting entities. Management s decision to maintain the valuation allowances on certain reporting entities net deferred tax assets requires significant judgment and an analysis of all the positive and negative evidence regarding the likelihood that these future benefits will be realized. The most recent three years of cumulative losses, adjusted for any non-recurring items, was considered a significant negative factor supporting the need for a valuation allowance. At the point when each of these entities transition into a cumulative income position, Management will consider this profitability measure along with other facts and circumstances in determining whether to release any of the valuation allowances. The other facts and circumstances that are considered in evaluating the need for or release of a valuation allowance include sustained profitability, both historical and forecast, and business/tax planning strategies.

While certain foreign entities with net operating loss carry-forwards have been profitable, the Company continues to record a full valuation allowance on these entities net deferred tax assets due to their history of losses. Management regularly evaluates the need for a valuation allowance on deferred tax assets. Given the continued improvement in earnings in certain foreign reporting entities, which is one factor considered in the evaluation process, it is possible that the valuation allowance for those entities may be reversed at some time in the next several quarters if these trends continue and other factors do not outweigh this evidence.

Liabilities for Uncertain Tax Positions

The Company s potential liability for uncertain tax positions totaled $320.8 million at September 30, 2013 and $317.8 million at December 31, 2012. Management estimates that this liability may be reduced by up to $5 million within the next twelve months. The Company s accrued liability for interest and penalties totaled $13.0 million at September 30, 2013 and $12.6 million at December 31, 2012. The Company recognizes accrued interest and penalties on unrecognized tax benefits in income tax expense.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 10 STOCKHOLDERS EQUITY

Accumulated Other Comprehensive Income (Loss)

The following table details the components of Accumulated Other Comprehensive Income (Loss):

Components of Accumulated Other Comprehensive Income (Loss) (dollars in millions)

	September 30, 2013			December 31, 2012		
	Gross Unrealized	Income Taxes	Net Unrealized	Gross Unrealized	Income Taxes	Net Unrealized
Changes in benefit plan net gain (loss) and prior service (cost)/credit	$(43.0)	$ 0.3	$(42.7)	$(43.5)	$ 0.4	$(43.1)
Foreign currency translation adjustments	(45.6)		(45.6)	(36.6)		(36.6)
Changes in fair values of derivatives qualifying as cash flow hedges	(0.1)		(0.1)	(0.1)		(0.1)
Unrealized net gains (losses) on available for sale securities	0.7	(0.3)	0.4	3.5	(1.4)	2.1
Total accumulated other comprehensive loss	$(88.0)	$	$(88.0)	$(76.7)	$(1.0)	$(77.7)

The following table details the changes in the components of Accumulated Other Comprehensive Income (Loss).

Changes in Accumulated Other Comprehensive Income (Loss) by Component[1] (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)
Balance as of December 31, 2012	$(43.1)	$(36.6)	$ 2.1	$(0.1)	$(77.7)
AOCI activity before reclassifications	0.7	(16.5)	(2.1)	0.7	(17.2)
Amounts reclassed from AOCI	(0.3)	7.5	0.4	(0.7)	6.9
Net current period AOCI	0.4	(9.0)	(1.7)		(10.3)
Balance as of September 30, 2013	$(42.7)	$(45.6)	$ 0.4	$(0.1)	$(88.0)
Balance as of December 31, 2011	$(54.8)	$(28.2)	$ 1.1	$(0.7)	$(82.6)
AOCI activity before reclassifications		(12.5)	1.1	1.8	(9.6)
Amounts reclassed from AOCI	1.2	6.2		(1.2)	6.2
Net current period AOCI	1.2	(6.3)	1.1	0.6	(3.4)
Balance as of September 30, 2012	$(53.6)	$(34.5)	$ 2.2	$(0.1)	$(86.0)

(1) *All amounts are net-of-tax.*

Other Comprehensive Income (Loss)

The amounts included in the Statement of Comprehensive Income (Loss) are net of income taxes. The change in income taxes associated with changes in benefit plans net gain/(loss) and prior service (cost)/credit were not significant for the quarters ended September 30, 2013 and September 30, 2012 as well as for the nine months ended September 30, 2013. Changes in income taxes associated with changes in benefit plans net gain/(loss) and prior service (cost)/credit were $1.8 million for the nine months ended September 30, 2012. The change in income taxes associated with net unrealized gains on available for sale securities totaled approximately ($0.3) million for the quarter ended September 30, 2013 and $0.3 million for the September 30, 2012 quarter and ($1.1) million for the nine months ended September 30, 2013 and $1.1 million for the nine months ended September 30, 2012. There were no income taxes associated with foreign currency translation adjustments and changes in fair values of derivatives qualifying as cash flow hedges for the quarters and nine months ended September 30, 2013 and 2012.

The changes in benefit plans net gain/(loss) and prior service (cost)/credit reclassification adjustments impacting net income was $0.1 million for the quarter and $(0.3) million for the nine months ended September 30, 2013 and was $0.5 million for the quarter ended September 30, 2012 and $1.2 million for the nine months ended September 30, 2012. There were no reclassification adjustments for unrealized gains (losses) on investments recognized through income for the quarter ended September 30, 2013, but reclassification adjustments were $0.4 million for the nine months ended September 30, 2013 and were insignificant in the prior year periods.

The Company has operations in Canada, Europe 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 included in earnings.

Reclassifications out of Accumulated Other Comprehensive Income for Periods Ended September 30, (dollars in millions)

	Quarters Ended September 30,						Nine Months Ended September 30,						S
	2013			2012			2013			2012			
	Gross Amount	Tax	Net Amount	Gross Amount	Tax	Net Amount	Gross Amount	Tax	Net Amount	Gross Amount	Tax	Net Amount	
Changes in benefit plan net gain/(loss) and prior service (cost)/credit gains (losses)	$ 0.1	$	$ 0.1	$ 0.5	$	$ 0.5	$(0.3)	$	$(0.3)	$ 3.0	$(1.8)	$ 1.2	
Foreign currency translation adjustments gains (losses)	(0.1)		(0.1)	9.6		9.6	7.5		7.5	6.2		6.2	O
Net unrealized gains (losses) on available for sale securities gains (losses)							0.7	(0.3)	0.4				O
Changes in fair value of derivatives qualifying as cash flow hedges gains (losses)				0.8		0.8	(0.7)		(0.7)	(1.2)		(1.2)	O
Total Reclassifications out of AOCI	$	$	$	$10.9	$	$10.9	$ 7.2	$(0.3)	$ 6.9	$ 8.0	$(1.8)	$ 6.2	

NOTE 11 COMMITMENTS

The accompanying table summarizes credit-related commitments, as well as purchase and funding commitments:

Commitments (dollars in millions)

	September 30, 2013			December 31, 2012
	Due to Expire			
	Within One Year	After One Year	Total Outstanding	Total Outstanding
Financing Commitments				
Financing and leasing assets	$ 645.9	$3,594.4	$4,240.3	$3,301.2
Letters of credit				
Standby letters of credit	32.3	269.4	301.7	238.5
Other letters of credit	35.6		35.6	53.6
Guarantees				
Deferred purchase agreements	2,044.7		2,044.7	1,841.5
Guarantees, acceptances and other recourse obligations	14.8	3.6	18.4	17.4
Purchase and Funding Commitments				

	September 30, 2013			
Aerospace manufacturer purchase commitments	1,156.5	8,097.1	9,253.6	9,168.3
Rail and other manufacturer purchase commitments	1,008.4	477.2	1,485.6	927.4
Commercial loan portfolio purchase commitment				1,258.3

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Financing Commitments

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 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 $546 million at September 30, 2013 and $325 million at December 31, 2012. Financing commitments also include credit line agreements to Trade Finance 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 $266 million at September 30, 2013. As financing commitments may not be fully drawn, expire unused, be reduced or cancelled at the customer s request, and 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 $0.9 billion of undrawn financing commitments at September 30, 2013 and $0.6 billion at December 31, 2012 for instances where the customer is not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend.

At September 30, 2013, substantially all undrawn financing commitments were senior facilities. Most of the Company s undrawn and available financing commitments are in Corporate Finance.

The table above excludes uncommitted revolving credit facilities extended by Trade Finance to its clients for working capital purposes. In connection with these facilities, Trade Finance 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 Trade Finance 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 $1,805 million of DPA credit protection at September 30, 2013, 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 $240 million available under DPA credit line agreements, net of amount of DPA credit protection provided at September 30, 2013. 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.

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 $6.8 million and $5.6 million at September 30, 2013 and December 31, 2012, 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 with 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, 156 aircraft remain to be purchased from Airbus, Boeing and Embraer at September 30, 2013. Aircraft deliveries are scheduled periodically through 2020. Commitments exclude unexercised options to order additional aircraft.

The Company s rail business entered into commitments to purchase railcars from multiple manufacturers. Pursuant to these contractual commitments, at September 30, 2013,

approximately 9,100 railcars remain to be purchased with deliveries through 2015. Rail equipment purchase commitments are at fixed prices subject to price increases for certain materials. Other vendor purchase commitments relate to Vendor Finance equipment.

NOTE 12 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 reasonably be determined. For Litigation where losses are reasonably possible and estimable, management currently estimates the aggregate range of reasonably possible losses as up to $370 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 available as of September 30, 2013. 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. Two of the Company s pending Litigation matters are described below.

Tyco Tax Agreement

In connection with the Company s separation from Tyco International Ltd (Tyco) in 2002, CIT and Tyco entered into a Tax Agreement pursuant to which, among other things, CIT agreed to pay Tyco for tax savings actually realized by CIT, if any, as a result of the use of certain net operating losses arising during the period that Tyco owned CIT (the Tyco Tax Attribute), which savings would not have been realized absent the existence of the Tyco Tax Attribute. During CIT s bankruptcy, CIT rejected the Tax Agreement and Tyco and CIT entered into a Standstill Agreement pursuant to which (a) CIT agreed that it would defer bringing its subordination claim against Tyco and (b) Tyco agreed that it would defer bringing its damage claim against CIT while the parties exchanged information about CIT s tax position, including past usage and retention of the various attributes on its consolidated tax return. Notwithstanding the Standstill Agreement, in the second quarter of 2011, Tyco filed a Notice of Arbitration demanding arbitration of its alleged contractual damages resulting from rejection of the Tax Agreement. CIT filed an adversary proceeding in the United States Bankruptcy Court for the Southern District of New York (the Bankruptcy Court), seeking to subordinate Tyco s interests under section 510(b) of the Bankruptcy Code, which would result in Tyco being treated like equity holders under CIT s confirmed Plan of Reorganization and receiving no recovery in connection with the termination of the Tax Agreement. In December 2011, the Bankruptcy Court denied the request to subordinate Tyco s interests. In September 2012, the Second Circuit Court of Appeals affirmed the Bankruptcy Court s decision. The arbitration hearing is currently scheduled to begin in December 2013.

The amount of the federal Tyco Tax Attribute could be as much as approximately $794 million and the state Tyco Tax Attribute could be as much as approximately $180 million as of the separation date. CIT s approximate federal and state tax rates are currently 35% and 6.5%, respectively. CIT has recorded a valuation allowance against its federal net deferred tax assets and substantially all of its state net deferred tax assets, which include the deferred tax assets associated with the Tyco Tax Attribute, as the Company does not currently meet the criteria to recognize these assets. It is CIT s position that it has not received federal tax benefits from the Tyco Tax Attribute within the meaning of the Tax Agreement and that it is speculative as to when, if ever, CIT will exhaust its own NOLs such that it might realize any benefits from the Tyco Tax Attributes in the future.

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Lac-Mégantic, 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 were 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, the destruction of more than thirty buildings in Lac-Mégantic, the release of crude oil on land and into the Chaudière River and an unknown number of personal injuries. 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 twenty 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, if any, 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. The Company has joined a motion to move these cases to the U.S. District Court in Maine. Other cases may be filed in U.S. and Canadian courts. The plaintiffs 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, and also has rights as an additional insured under liability coverage maintained by the lessees. In addition, 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 has triggered a number of regulatory investigations and actions. The Transportation Safety Board of Canada is investigating the cause of the derailment, with assistance from Transport Canada. 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 regulatory investigations have not been concluded, 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.

NOTE 13 BUSINESS SEGMENT INFORMATION

Management s Policy in Identifying Reportable Segments

CIT s reportable segments are comprised of strategic business units that are aggregated into segments primarily based upon industry categories 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

CIT has five reportable segments: Corporate Finance, Transportation Finance, Trade Finance, Vendor Finance and Consumer. Corporate Finance and Trade Finance offer secured lending as well as other financial products and services predominately to small and midsize companies. These include secured revolving lines of credit and term loans, accounts receivable credit protection, accounts receivable collection, import and export financing, factoring, debtor-in-possession and turnaround financing and receivable advisory services. Transportation Finance offers secured lending and leasing products to midsize and larger companies across the aerospace, rail and maritime industries. Vendor Finance partners with manufacturers and distributors to offer secured lending and leasing products predominantly to small and mid-size companies primarily in information technology, telecommunication and office equipment markets. Consumer includes a liquidating portfolio of government-guaranteed student loans.

Segment Profit and Assets

In the table that follows, Corporate and Other includes certain non-allocated items such as cash liquidity in excess of the amount required by the business units that management determines is prudent for the overall company and loss on debt extinguishment.

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CIT GROUP INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Business Segments (dollars in millions)

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Commercial Segments	Consumer	Total Segments	Corporate and Other	Total CIT
Quarter Ended September 30, 2013									
Interest income	$ 126.0	$ 37.4	$ 13.1	$ 124.5	$ 301.0	$ 31.9	$ 332.9	$ 4.5	$ 337.4
Interest expense	(58.3)	(126.0)	(6.1)	(53.1)	(243.5)	(21.3)	(264.8)	(13.2)	(278.0)
Provision for credit losses	(4.4)	0.7	0.8	(13.5)	(16.4)		(16.4)		(16.4)
	4.8	381.5		54.8	441.1		441.1		441.1

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Commercial Segments	Consumer	Total Segments	Corporate and Other	Total CIT
Rental income on operating leases									
Other income	28.7	29.5	38.2	5.5	101.9	0.2	102.1	2.7	104.8
Depreciation on operating lease equipment	(2.7)	(113.4)		(26.9)	(143.0)		(143.0)		(143.0)
Operating expenses	(57.6)	(49.0)	(28.5)	(83.1)	(218.2)	(5.7)	(223.9)	(8.3)	(232.2)
Income (loss) before (provision) benefit for income taxes	$ 36.5	$ 160.7	$ 17.5	$ 8.2	$ 222.9	$ 5.1	$ 228.0	$ (14.3)	$ 213.7
Quarter Ended September 30, 2012									
Interest income	$ 140.1	$ 34.1	$ 15.0	$ 136.5	$ 325.7	$ 44.9	$ 370.6	$ 4.9	$ 375.5
Interest expense	(146.9)	(375.1)	(24.1)	(122.7)	(668.8)	(43.0)	(711.8)	(104.2)	(816.0)
Provision for credit losses	22.0	(8.9)	(4.3)	(8.8)					
Rental income on operating leases	1.7	386.9		57.2					