CIT GROUP INC
Form 10-K
March 07, 2016

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

FORM 10-K

|X| Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2015

or

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

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**65-1051192** (IRS Employer Identification No.)
11 West 42nd Street, New York, New York (Address of Registrant s principal executive offices)	**10036** (Zip Code)

(212) 461-5200
Registrant s telephone number including area code:

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

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes |X| No | |

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes | | No |X|

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

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

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

At February 15, 2016, there were 201,538,384 shares of CIT s common stock, par value $0.01 per share, outstanding.

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

The aggregate market value of voting common stock held by non-affiliates of the registrant, based on the New York Stock Exchange Composite Transaction closing price of Common Stock ($46.49 per share, 172,107,511 shares of common stock outstanding), which occurred on June 30, 2015, was $8,001,278,186. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates. Such determination shall not be deemed an admission that such officers and directors are, in fact, affiliates of the registrant.

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.
Yes |X| No | |

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement relating to the 2016 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

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PART ONE

Item 1: Business Overview

BUSINESS DESCRIPTION

CIT Group Inc., together with its subsidiaries (collectively we , our , CIT or the Company), has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. We had nearly $60 billion of earning assets at December 31, 2015. CIT became a bank holding company (BHC) in December 2008 and a financial holding company (FHC) in July 2013. CIT provides a full range of banking and related services to commercial and individual customers through its bank subsidiary, CIT Bank, N.A., which includes 70 branches located in southern California, and its online bank, bankoncit.com, and through other offices in the U.S. and internationally.

Effective as of August 3, 2015, CIT acquired IMB HoldCo LLC (IMB), the parent company of OneWest Bank, National Association, a national bank (OneWest Bank) (the OneWest Transaction). CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank, with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association (CIT Bank, N.A. or CIT Bank). The acquisition improves CIT s competitive position in the financial services industry while advancing our commercial banking model. See *Note 2 Acquisition and Disposition Activities* in *Item 8. Financial Statements and Supplementary Data* for additional information and *OneWest Transaction* for information on certain acquired assets and liabilities.

CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury (OCC). Prior to the OneWest Transaction, CIT Bank was regulated by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI).

Each business has industry alignment and focuses on specific sectors, products and markets. Our principal product and service offerings include:

Products and Services	
Account receivables collection	Equipment leases
Acquisition and expansion financing	Factoring services
Advisory services investment and trust	Financial risk management
Asset management and servicing	Import and export financing
Asset-based loans	Insurance services
Credit protection	Letters of credit / trade acceptances
Cash management and payment services	Merger and acquisition advisory services (M&A)
Debt restructuring	Private banking
Debt underwriting and syndication	Residential mortgage loans
Deposits	Secured lines of credit
Enterprise value and cash flow loans	Small Business Administration (SBA) loans

We source our commercial lending business through direct marketing to borrowers, lessees, manufacturers, vendors and distributors, and through referral sources and other intermediaries. As a result of the OneWest Bank acquisition, we are now able to source our commercial and consumer lending business through our branch network. Periodically we buy participations in syndications of loans and lines of credit and purchase finance receivables on a whole-loan basis.

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

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

Funding sources include deposits and borrowings. As a result of the OneWest Transaction and our continued funding and liability management initiatives, our funding mix has continued to migrate towards a higher proportion of deposits.

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BUSINESS SEGMENTS

Certain changes to our segments occurred during 2015 to reflect the inclusion of OneWest Bank operations. North American Commercial Finance (NACF) was renamed North America Banking (NAB) and includes the Commercial Real Estate, Commercial Banking and Consumer Banking divisions. We created a new segment, Legacy Consumer Mortgages (LCM), which includes single-family residential mortgage (SFR) loans and reverse mortgage loans that were acquired as part of the OneWest Bank acquisition. Certain of the LCM loans are subject to loss sharing agreements with the FDIC, under which CIT may be reimbursed for a portion of future losses.

SEGMENT NAME	DIVISIONS	MARKETS AND SERVICES
North America Banking	Commercial Banking Commercial Real Estate Commercial Services Equipment Finance Consumer Banking	The commercial divisions provide lending, leasing and other financial and advisory services, including Small Business Administration (SBA) loans, to small and middle-market companies across select industries. Factoring, receivables management products and secured financing to retail supply chain. Consumer Banking includes a full suite of deposit products, and

SEGMENT NAME	DIVISIONS	MARKETS AND SERVICES
		SFR loans offered through retail branches, private bankers, and an online direct channel.
Transportation & International Finance	Aerospace Rail Maritime Finance International Finance	Large ticket equipment leasing and secured financing to select transportation industries. Equipment finance and secured lending in select international geographies.
Legacy Consumer Mortgages	Single Family Residential Mortgages Reverse Mortgages	Consists of SFR loans and reverse mortgage loans, certain of which are covered by loss sharing agreements with the FDIC.
Non-Strategic Portfolios		Consists of portfolios that we do not consider strategic.
Corporate and Other		Includes investments and other unallocated items, such as certain amortization of intangible assets.

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

With the announced changes to CIT management, along with the Company s exploration of alternatives for the commercial aerospace business, we will further refine our segment reporting effective January 1, 2016.

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NORTH AMERICA BANKING

The NAB segment (the legacy CIT components of which were previously known as North American Commercial Finance) consists of five divisions: Commercial Banking, Commercial Real Estate, Commercial Services, Equipment Finance, and Consumer Banking. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities, capital markets transactions and banking services, commissions earned on factoring and related activities, and to a lesser extent, interest and dividends on investments. Revenue is also generated from gains on asset sales. In the fourth quarter of 2015, we announced that we intend to sell our Canada portfolio.

Description of Divisions

Commercial Banking (previously known as Corporate Finance) provides a range of lending and deposit products, as well as ancillary services, including cash management and advisory services, to small and medium size businesses. Loans offered are primarily senior secured loans collateralized by accounts receivable, inventory, machinery & equipment and/or intangibles that are often used for working capital, plant expansion, acquisitions or recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be asset-based loans or cash flow loans. Loans are originated through direct relationships, led by individuals with significant experience in their respective industries, or through relationships with private equity sponsors. We provide financing to customers in a wide range of industries, including Commercial & Industrial, Communications & Technology, Entertainment & Media, Energy, and Healthcare. The division also originates qualified SBA 504 loans (generally for buying a building, ground-up construction, building renovation, or the purchase of heavy machinery and equipment) and 7(a) loans (generally for working capital or financing leasehold improvements). Additionally, the division offers a full suite of deposit and payment solutions to small and medium size businesses.

Commercial Real Estate provides senior secured commercial real estate loans to developers and other commercial real estate professionals. We focus on properties with a stable cash flow and originate construction loans to highly experienced and well capitalized developers. In addition, the OneWest Bank portfolio included multi-family mortgage loans that are being run off.

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

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

Consumer Banking offers mortgage loans, deposits and private banking services to its consumer customers. The division offers jumbo residential mortgage loans and conforming residential mortgage loans, primarily in Southern California. Mortgage loans are primarily originated through leads generated from the retail branch network, private bankers, and the commercial business units. Mortgage lending includes product specialists, internal sales support and origination processing, structuring and closing. Retail banking is the primary deposit gathering business of CIT Bank and operates through 70 retail branches in Southern California and an online direct channel. We offer a broad range of deposit and lending products to meet the needs of our clients (both individuals and small businesses), including: checking, savings, certificates of deposit, residential mortgage loans, and investment advisory services. We also offer banking services to high net worth individuals.

Key Risks

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

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

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

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

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

The largest risk for Commercial Services is customer credit risk in factoring transactions. Customer credit risk relates to the financial inability of a customer to pay on undisputed trade accounts receivable due from such customer to the factor. While less significant than customer credit exposure, there is also client credit risk in providing cash advances to factoring clients. Client credit risk relates to a decline in the creditworthiness of a borrowing client, their consequent inability to repay their loan and the possible insufficiency of the underlying collateral (including the aforementioned customer accounts receivable) to cover any loan repayment shortfall. At December 31, 2015, client credit risk accounted for less than 10% of total Commercial Services credit exposure while customer credit risk accounted for the remainder.

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

Key risks faced by NAB s Consumer Banking division are credit risk, collateral risk and geographic concentration risk. Similar to our commercial business, credit risks associated with secured consumer financings relate to the ability of the borrower to repay its loan and the value of the collateral underlying the loan should the borrower default on its obligations. Our consumer mortgage loans are typically collateralized by the underlying property, primarily single family homes. Therefore, collateral risk relates to the potential decline in value of the property securing the loan. Most of the loans are concentrated in California; therefore, the geographic concentration risk relates to a potential downturn in the economic conditions in that state.

TRANSPORTATION & INTERNATIONAL FINANCE

TIF is a leading provider of leasing and financing solutions to operators and suppliers in the global aviation and railcar industries, and has a growing maritime business. TIF consists of four divisions: Aerospace (Commercial Air and Business Air), Rail, Maritime Finance, and International Finance, the latter of which includes equipment financing, secured lending and leasing in China and the U.K. The financing and leasing assets of the International Division are included in assets held for sale at December 31, 2015. Also, the Company announced during the fourth quarter it is reviewing all of the options available to enhance value through separating or selling our Commercial Air business.

Revenues generated by TIF primarily include rents collected on leased assets, interest on loans, fees, and gains from assets sold. Aerospace and Rail account for the majority of the segment s assets, revenues and earnings.

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

Description of Businesses

Aerospace

Commercial Air provides aircraft leasing, lending, asset management, and advisory services. The division s primary clients include global and regional airlines around the world. Offices are located in the U.S., Europe and Asia. As of December 31, 2015, our commercial aerospace financed, leased and managed portfolio consists of 386 owned, financed and managed aircraft, which are placed with about 100 clients in approximately 50 countries.

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

Rail offers customized leasing and financing solutions and a highly efficient fleet of railcars and locomotives to railroads and shippers throughout North America and Europe. We expanded our operations to Europe during 2014 through an acquisition. We serve over 650 customers, including all of the U.S. and Canadian Class I railroads (railroads with annual revenues of at least $250 million), other railroads and non-rail companies, such as shippers and power and energy companies. Our operating lease fleet consists of over 128,000 railcars and 390 locomotives. Railcar types include covered hopper cars used to ship grain and agricultural products, plastic pellets, sand, and cement, tank cars for energy products and chemicals, gondolas for coal, steel coil and mill service products, open hopper cars for coal and aggregates, boxcars for paper and auto parts and centerbeams and flat cars for lumber.

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

International Finance offers equipment financing, secured lending and leasing to small and middle-market businesses in China and the U.K., all of which was included in assets held for sale at December 31, 2015. The U.K. portfolio was sold January 1, 2016.

The primary asset type held by TIF is equipment (predominantly commercial aircraft and railcars) purchased and leased to commercial end-users. The typical structure for leasing of large ticket transportation assets is an operating lease, whereby CIT retains the majority of the asset risk by virtue of the relatively short lease term in comparison to the useful life of the asset. TIF also has a loan portfolio consisting primarily of senior, secured loans.

Key Risks

The primary risks for TIF are asset risk (resulting from ownership of the equipment on operating lease), credit risk and utilization risk. Asset risk arises from fluctuations in supply and demand for the underlying equipment that is leased. TIF invests in long-lived equipment; commercial aircraft have economic useful lives of

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approximately 20-25 years and railcars/locomotives have economic useful lives of approximately 35-50 years. This equipment is then leased to commercial end-users with lease terms of approximately 3-12 years. CIT is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

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

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

Exposure to certain industries could result in lower utilization of our equipment. A decrease in the level of airline passenger traffic or a decline in railroad shipping volumes or demand for specific railcars due to reduced demand for certain raw materials or bulk products, such as oil, coal, or steel, may adversely affect our aerospace or rail businesses, the value of our aircraft and rail assets, and the ability of our lessees to make lease payments.

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

LEGACY CONSUMER MORTGAGES

LCM was created in connection with the OneWest Transaction and includes portfolios of SFR mortgage loans and reverse mortgage loans. Revenue generated is primarily interest on loans. LCM does not extend new originations for these products, but does fund pre-existing commitments and performs loan modifications. These loans were previously acquired by OneWest Bank in connection with the IndyMac, First Federal and La Jolla transactions described in *Note 5 Indemnification Assets* of *Item 8 Financial Statements and Supplementary Data*. Certain of the loans are covered by loss sharing agreements with the FDIC, which are scheduled to expire in 2019 and 2020. The FDIC indemnified OneWest Bank against certain future losses sustained on these loans. In conjunction with the OneWest Transaction, CIT Bank may now be reimbursed for losses under the terms of the loss sharing agreements with the FDIC. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., liquidation of collateral). Reimbursements approved by the FDIC are usually received within 60 days of submission.

Key Risks

Key risks are credit risk, collateral risk and geographic concentration risk. Credit risks associated with secured consumer financings relate to the ability of the borrower to repay the loan and the value of the collateral underlying the loan should the borrower default on its obligations. As discussed in *Note 5 Indemnification Assets* of *Item 8. Financial Statements and Supplementary Data,* certain indemnifications from the FDIC begin to expire in 2019. LCM consumer loans are typically collateralized by the underlying property, primarily single family homes. Therefore, collateral risk relates to the potential decline in value of the property securing the loan. Most of the LCM loans are concentrated in California, therefore the geographic concentration risk relates to a potential downturn in the economic conditions in that state.

NON-STRATEGIC PORTFOLIOS

NSP had consisted of portfolios that we no longer considered strategic. During 2015 the remaining portfolios, which consisted primarily of equipment financing portfolios in Mexico and Brazil, were sold.

CORPORATE AND OTHER

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

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CIT BANK, N.A.

Prior to August 3, 2015, CIT Bank was a Utah-state chartered bank and a wholly owned subsidiary of CIT. On that date, CIT Bank merged with and into OneWest Bank, with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association (the Bank , CIT Bank or CIT Bank, N.A.). CIT Bank, N.A. is regulated by the OCC.

CIT Bank, N.A. raises deposits through its 70 branch network and from retail and institutional customers through commercial channels, as well as its online bank (www.BankOnCIT.com) and, to a lessening extent, through broker channels. Its existing suite of deposit products includes checking and savings accounts, Individual Retirement Accounts and Certificates of Deposit.

CIT Bank s commercial banking division provides a range of lending and deposit products, as well as ancillary services, including cash management and advisory services, to small and medium size companies. The Bank s consumer banking division offers mortgage lending, deposits and private banking services to its customers.

The Bank s financing and leasing assets are primarily commercial loans, consumer loans and operating lease equipment. Its commercial loans and operating lease equipment are reported in NAB and TIF, and consumer loans are in LCM and NAB. Consumer loans consist of jumbo residential mortgage loans and conforming residential mortgage loans, which are included in NAB, and SFR and reverse mortgage loans, which are within LCM. The Bank s growing operating lease portfolio primarily consists of railcars, with some aircraft. The commercial aerospace business is conducted largely outside the bank.

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

DISCONTINUED OPERATIONS

Discontinued operations are discussed, along with balance sheet and income statement items, in *Note 2 Acquisition and Disposition Activities* in *Item 8. Financial Statements and Supplementary Data*. See also *Note 22 Contingencies* for discussion related to the servicing business.

EMPLOYEES

CIT employed approximately 4,900 people at December 31, 2015, up from approximately 3,360 at December 31, 2014, mostly reflecting the OneWest Bank acquisition. Based upon the location of the Company s legal entities, approximately 4,415 were employed in the U.S. entities and 485 in non-U.S. entities.

COMPETITION

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

Many of our competitors are large companies with substantial financial, technological, and marketing resources. Our customer value proposition is primarily based on financing terms, structure, and client service. From time to time, due to highly competitive markets, we may (i) lose market share if we are unwilling to match product structure, pricing, or terms of our competitors that do not meet our credit standards or return requirements or (ii) receive lower returns or incur higher credit losses if we match our competitors product structure, pricing, or terms. While our funding structure puts us at a competitive disadvantage to other banks due to our proportion of higher cost debt, the OneWest Bank acquisition has reduced that disadvantage by increasing lower-cost funding sources, such as deposits.

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

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REGULATION

We are regulated by federal banking laws, regulations and policies. Such laws and regulations are intended primarily for the protection of depositors, customers and the federal deposit insurance fund (DIF), as well as to minimize risk to the banking system as a whole, and not for the protection of our shareholders or non-depository creditors. Bank regulatory agencies have broad examination and enforcement power over bank holding companies (BHCs) and their subsidiaries, including the power to impose substantial fines, limit dividends, and other capital distributions, restrict operations and acquisitions, and require divestitures. BHCs and banks, as well as subsidiaries of both, are prohibited by law from engaging in practices that the relevant regulatory authority deems unsafe or unsound. CIT is a BHC, and elected to become a FHC, subject to regulation and examination by the FRB and the FRBNY. As an FHC, CIT is subject to certain limitations on our activities, transactions with affiliates, and payment of dividends, and certain standards for capital and liquidity, safety and soundness, and incentive compensation, among other matters. Under the system of functional regulation established under the BHC Act, the FRB supervises CIT, including all of its non-bank subsidiaries, as an umbrella regulator of the consolidated organization. CIT Bank is chartered as a national bank by the OCC and is a member bank of the Federal Reserve System. CIT s principal regulator is the FRB and CIT Bank s principal regulator is the OCC. Both CIT and CIT Bank are regulated by the Consumer Financial Protection Bureau (CFPB), which regulates consumer financial products. Prior to the OneWest Transaction, CIT Bank was regulated by the FDIC and the UDFI.

Certain of our subsidiaries are subject to regulation by other domestic and foreign governmental agencies. In connection with the restructuring of our international platforms, we have surrendered all of our banking licenses outside of the United States.

CIT Capital Securities L.L.C., a Delaware limited liability company, is a broker-dealer licensed by the Financial Industry Regulatory Authority (FINRA), and is subject to regulation by FINRA and the Securities and Exchange Commission (SEC). CIT also holds a 16% interest in CIT Group Securities (Canada) Inc., a Canadian broker dealer, which is licensed and regulated by the Ontario Securities Commission.

Our insurance operations are primarily conducted through The Equipment Insurance Company, a Vermont corporation, and CIT Insurance Agency, Inc., a Delaware corporation. Each company is licensed to enter into insurance contracts and is subject to regulation and examination by insurance regulators.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted in July 2010, made extensive changes to the regulatory structure and environment affecting banks, BHCs, non-bank financial companies, broker-dealers, and investment advisory and management firms. Although the Dodd-Frank Act has not significantly limited CIT from conducting the activities in which we were previously engaged, a number of regulations have affected and will continue to affect the conduct of a number of our business activities, either directly through regulation of specific activities or indirectly through regulation of concentration risks, capital, or liquidity or through the imposition of additional compliance requirements.

As of September 30, 2015, as a result of the OneWest Transaction, we exceeded the $50 billion threshold that subjects BHCs to enhanced prudential supervision requirements under Sections 165 and 166 of the Dodd-Frank Act and regulations issued by the FRB thereunder. These additional requirements will be phased in over time, through March 2017. We expect to continue devoting significant additional resources in terms of both increased expenditures and management time in 2016 to implement each of these requirements and ongoing costs thereafter to continue to comply with these enhanced prudential supervision requirements. See *Enhanced Prudential Standards for Large Bank Holding Companies* below.

The OCC approval of the OneWest Transaction was subject to two conditions. First, the OCC required CIT Bank to submit a comprehensive business plan covering a period of at least three years, including a financial forecast, a capital plan that provides for maintenance of CIT Bank s capital, a funding plan and contingency funding plan, the intended types and volumes of lending activities, and an action plan to accomplish identified strategic goals and objectives. After each calendar quarter, the Bank must report and explain to the OCC any material variances. The Board must review the performance of CIT Bank under the business plan at least annually and CIT Bank must update the business plan annually.

Second, the OCC required CIT Bank to submit a revised Community Reinvestment Act of 1977 (CRA) Plan after the merger. The revised CRA Plan must describe the actions it intends to take to help meet the credit needs in low and moderate income (LMI) areas within its assessment areas, including annual goals for helping to meet the credit needs of LMI individuals and geographies within the assessment areas, the management structure responsible for implementing the CRA Plan, and the Board committee responsible for overseeing the Bank s performance under the CRA Plan. CIT Bank must informally seek input on its CRA Plan from members of the public in its assessment areas. In addition, CIT Bank must publish on its public website (i) a copy of its revised CRA Plan after it receives a written determination of non-objection from the OCC and (ii) a CRA Plan summary report that demonstrates the measurable results of the revised CRA Plan a month prior to the commencement of CIT Bank s performance evaluation.

The FRB Order approved the OneWest Transaction conditioned on CIT meeting certain conditions and on commitments made in connection with CIT s application. CIT committed to meeting certain levels of CRA-reportable lending and CRA Qualified Investments in its assessment areas over 4 years, making annual donations to qualified non-profit organizations that provide services in its assessment areas, locating 15% of its branches and ATMs in LMI census tracts, and providing 2,100 hours of CRA volunteer service.

CIT Bank filed its CRA Plan with the OCC in December 2015 and its comprehensive business plan in January 2016. The CRA Plan and the comprehensive business plan each are subject to review and non-objection by the OCC.

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Banking Supervision and Regulation

Permissible Activities

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

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

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

Volcker Rule

The Dodd-Frank Act limits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (e.g., hedge funds and private equity funds). This statutory provision is commonly called the Volcker Rule . The statutory provision became effective in July 2012 and required banking entities subject to the Volcker Rule to bring their activities and investments into compliance with applicable requirements by July 2014. In December 2013, the federal banking agencies, the SEC, and the Commodity Futures Trading Commission (CFTC) adopted final rules to implement the Volcker Rule, and the FRB, by order, extended the compliance period to July 2015. In December 2014, the FRB, by order, extended the conformance period to July 2016 for investments in and relationships with so-called legacy covered funds and stated its intention to grant an additional extension through July 2017. The final rules are highly complex and require an extensive compliance program, including an enhanced compliance program applicable to banking entities with more than $50 billion in consolidated assets. CIT does not currently anticipate that the Volcker Rule will have a material effect on its business and activities, as we have a limited amount of trading activities and fund investments. CIT has sold most of its private equity fund investments, and may incur additional costs to dispose of its remaining fund investments, which have a remaining book value of less than $20 million. In addition, CIT will incur additional costs to revise its policies and procedures and review its operating and monitoring systems to ensure compliance with the Volcker Rule. We cannot yet determine the precise financial impact of the rule on CIT.

Capital Requirements

As a BHC, CIT is subject to consolidated regulatory capital requirements administered by the FRB. Upon completion of the merger with OneWest Bank on August 3, 2015, CIT Bank became subject to similar capital requirements administered by the OCC. In July 2013, the FRB, OCC, and FDIC issued a final rule (the Basel III Final Rule) establishing risk-based capital guidelines that are based upon the final framework for strengthening capital and liquidity regulation of the Basel Committee on Banking Supervision (the Basel Committee), which was released in December 2010 and revised in June 2011 (Basel III). The Company, as well as the Bank, became subject to the Basel III Final Rule, applying the Standardized Approach, effective January 1, 2015. Prior to January 1, 2015, the risk-based capital guidelines applicable to CIT were based upon the 1988 Capital Accord (Basel I) of the Basel Committee.

Although the Basel III Final Rule retained the capital components of Tier 1 capital, Tier 2 capital, and Total capital (the sum of Tier 1 and Tier 2 capital) and their related regulatory capital ratios, it implemented numerous changes in the composition of Tier 1 and Tier 2 capital and the related capital adequacy guidelines. Among other matters, the Basel III Final Rule: (i) introduces a new capital measure called Common Equity Tier 1 (CET1) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the deductions from and adjustments to capital as compared to previous regulations. For most banking organizations, the most common form of Additional Tier 1 capital instruments is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital instruments is subordinated notes, which are subject to the Basel

III Final Rule specific requirements. The Company does not currently have either of these forms of capital outstanding.

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

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

In addition, under the Basel I general risk-based capital rules, the effects of certain components of accumulated other comprehensive income (AOCI) included in shareholders equity (for example, mark-to-market of securities held in the available-for-sale (AFS) portfolio) under U.S. GAAP are reversed for the purpose of determining regulatory capital ratios. Pursuant to the Basel III Final Rule, the effects of these AOCI items are not excluded; however, non-advanced approaches banking organizations, including the Company and CIT Bank, may make a one-time permanent election to continue to exclude the AOCI items excluded under Basel I. Both the Company and CIT Bank have elected to exclude AOCI items from regulatory capital ratios. The Basel III Final Rule also precludes certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies Tier 1 capital. The Company did not have any hybrid securities outstanding at December 31, 2015.

Under the Basel III Final Rule, and previously under Basel I capital guidelines, assets and certain off-balance sheet commitments and obligations are converted into risk-weighted assets against which regulatory capital is measured. The Basel III Final Rule prescribed a new approach for risk weightings for BHCs and banks that follow the Standardized approach, which applies to CIT. This approach expands the risk-weighting categories from the previous four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the exposure, ranging from 0% for U.S. government, to as high as 1,250% for such exposures as credit-enhancing interest-only strips or unsettled security/commodity transactions.

Per the Basel III Final Rule, the minimum capital ratios for CET1, Tier 1 capital, and Total capital are 4.5%, 6.0% and 8.0%, respectively. In addition, the Basel III Final Rule introduces a new capital conservation buffer , composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. This buffer will be implemented beginning January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. Under the previous Basel I capital guidelines, the Company and CIT Bank were required to maintain Tier 1 and Total capital equal to at least 4.0% and 8.0%, respectively, of total risk-weighted assets to be considered adequately capitalized , or 6.0% and 10.0%, respectively, to be considered well capitalized.

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

	Minimum Capital Requirements January 1, 2019

	Minimum Capital Requirements January 1, 2019		
	CET 1	Tier 1 Capital	Total Capital
Stated minimum ratios	4.5%	6.0%	8.0%
Capital conservation buffer (fully phased-in)	2.5%	2.5%	2.5%
Effective minimum ratios (fully phased-in)	7.0%	8.5%	10.5%

With respect to CIT Bank, the Basel III Final Rule revises the prompt corrective action (PCA) regulations adopted pursuant to Section 38 of the Federal Deposit Insurance Act, by: (i) introducing a CET1 ratio requirement at each PCA category (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 capital ratio for well-capitalized status being 8% (as compared to the previous 6%); and (iii) eliminating the prior provision that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and requiring a minimum Tier 1 leverage ratio of 5.0%. The Basel III Final Rule does not change the total risk-based capital requirement for any PCA category. See *Prompt Corrective Action* below.

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

The Company and CIT Bank have met all capital requirements under the Basel III Final Rule, including the capital conservation buffer, on a fully phased in basis as if such requirements were currently effective. The following table presents CIT s and CIT Bank s estimated capital ratios as of December 31, 2015 calculated under the fully phased-in Basel III Final Rule Standardized approach.

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Preliminary Basel III Capital Ratios Fully Phased-in Standardized Approach(1) (dollars in millions)

	As of December 31, 2015			
	CIT		CIT Bank	
	Actuals	Requirement	Actuals	Requirement
Capital				
CET1	$ 8,885.6		$ 4,636.7	
Tier 1	8,885.6		4,636.7	
Total	9,288.9		5,011.4	
Risk-weighted assets	70,239.3		36,756.3	
Adjusted quarterly average assets	66,418.9		43,205.1	
Capital ratios				
CET1	12.7 %	7.0%(2)	12.6 %	7.0%(2)
Tier 1	12.7 %	8.5%(2)	12.6 %	8.5%(2)
Total	13.2 %	10.5%(2)	13.6 %	10.5%(2)

	As of December 31, 2015			
Leverage	13.4 %	4.0 %	10.7 %	4.0 %

(1) *Basel III Final Rule calculated under the Standardized Approach on a fully phased-in basis that will be required effective January 1, 2019.*

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

Enhanced Prudential Standards for Large Bank Holding Companies

Under Sections 165 and 166 of the Dodd-Frank Act, the FRB has promulgated regulations imposing enhanced prudential supervision requirements on BHCs with total consolidated assets of $50 billion or more. As a result of the OneWest Transaction, CIT exceeded the $50 billion threshold as of September 30, 2015 and therefore will be subject to certain of these requirements, including (i) capital planning and company-run and supervisory stress testing requirements, under the FRB s CCAR process, (ii) enhanced risk management and risk committee requirements, (iii) company-run liquidity stress testing and the requirement to hold a buffer of highly liquid assets based on projected funding needs for various time horizons, including 30, 60, and 90 days, (iv) the modified liquidity coverage ratio, which requires that we hold a sufficient level of high quality liquid assets to meet our projected net cash outflows over a 30 day stress horizon, (v) recovery and resolution planning (also referred to as the Living Will), and (vi) enhanced reporting requirements. These additional requirements will be phased in over time, through March 2017. We expect to incur additional costs in 2016 to implement these requirements and ongoing costs thereafter to continue to comply with these enhanced prudential supervision requirements.

Stress Test and Capital Plan Requirements

Under the enhanced prudential supervision requirements of the Dodd-Frank Act, CIT will be subject to capital planning and company-run and supervisory stress testing requirements under the FRB s CCAR process, which will require CIT to submit an annual capital plan, along with a Company-run stress test, and demonstrate that it can meet required regulatory capital minimums over a nine-quarter planning horizon. The FRB will conduct a separate supervisory stress test using data submitted by CIT in a format specified by the FRB. We will participate in the CCAR process in 2016, but we don t expect to be part of the same process as established CCAR banks until 2017. CIT will need to collect and report certain related data on a quarterly basis, which the FRB would use to track our progress against the capital plan. We expect that upon full implementation of the CCAR process in 2017, CIT may pay dividends and repurchase stock only in accordance with an approved capital plan to which the FRB has not objected. Prior to implementation of the CCAR process, CIT continues to consult with the FRB regarding dividends and repurchasing stock. Annual capital plans and company-run stress tests must be submitted by April 5, with publication of results by both the FRB and CIT by June 30, although we anticipate that results will not be required to be published until the 2017 CCAR process.

Furthermore, CIT and CIT Bank are required to conduct Company-run stress tests, pursuant to the enhanced prudential standards relating to Dodd-Frank Act Stress Tests (DFAST) to assess the impact of stress scenarios (including supervisor-provided baseline, adverse, and severely adverse scenarios and, for CIT, one Company-defined baseline scenario and at least one Company-defined stress scenario) on their consolidated earnings, losses, and capital over a nine-quarter planning horizon, taking into account their current condition, risks, exposures, strategies, and activities. While CIT Bank is only required to conduct an annual stress test, CIT must conduct both an annual and a mid-cycle stress test. Both CIT and CIT Bank must submit their annual DFAST results to their respective regulators by July 31, with public disclosure of summary stress test results between October 15 and October 31.

Liquidity Requirements

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, without required formulaic measures.

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

On September 3, 2014, the banking regulators adopted a joint final rule implementing the LCR for certain U.S. banking institutions. The rule applies a comprehensive version of the LCR to large and internationally active U.S. banking organizations, which include banks with total consolidated assets of $250 billion or more or total consolidated on-balance sheet foreign exposure of $10 billion or more, or any depository institution with total consolidated assets of $10 billion or more that is a consolidated subsidiary of either of the foregoing. These institutions will be required to hold minimum amounts of high-quality, liquid assets, such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash. Each institution would be required to hold high quality, liquid assets in an amount equal to or greater than its projected net cash outflows minus its projected cash inflows capped at 75% of projected cash outflows for a 30-day stress period. The firms must calculate their LCR each business day.

The final rule applies a modified version of the LCR requirements to bank holding companies with total consolidated assets of greater than $50 billion but less than $250 billion. The modified version of the LCR requirement only requires the LCR calculation to be performed on the last business day of each month and sets the denominator (that is, the calculation of net cash outflows) for the modified version at 70% of the denominator as calculated under the most comprehensive version of the rule applicable to larger institutions. Under the FRB final rule, a BHC with between $50 billion and $250 billion in total consolidated assets must comply with the first phase of the minimum LCR requirement at the later of January 1, 2016 or the first quarter after the quarter in which it exceeds $50 billion in total consolidated assets, with the LCR requirement going into full effect on January 1, 2017.

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

Resolution Planning

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

Orderly Liquidation Authority

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

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

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The following table sets forth the required capital ratios to be deemed well capitalized or adequately capitalized under regulations in effect at December 31, 2015.

	Prompt Corrective Action Ratios December 31, 2015	
	Well Capitalized(1)	**Adequately Capitalized**
CET 1	6.5%	4.5%
Tier 1 Capital	8.0%	6.0%
Total Capital	10.0%	8.0%
Tier 1 Leverage(2)	5.0%	4.0%

(1) *A well capitalized institution also must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure.*

(2) *As a standardized approach banking organization, CIT Bank is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018.*

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CIT Bank s capital ratios were all in excess of minimum guidelines for well capitalized at December 31, 2015. Neither CIT nor CIT Bank is subject to any order or written agreement regarding any capital requirements.

FDICIA requires the applicable federal regulatory authorities to implement systems for prompt corrective action for insured depository institutions that do not meet minimum requirements. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions as the capital category of an institution declines. Undercapitalized, significantly undercapitalized and critically undercapitalized depository institutions are required to submit a capital restoration plan to their primary federal regulator. Although prompt corrective action regulations apply only to depository institutions and not to BHCs, the holding company must guarantee any such capital restoration plan in certain circumstances. The liability of the parent holding company under any such guarantee is limited to the lesser of five percent of the bank s assets at the time it became undercapitalized or the amount needed to comply. The parent holding company might also be liable for civil money damages for failure to fulfill that guarantee. In the event of the bankruptcy of the parent holding company, such guarantee would take priority over the parent s general unsecured creditors.

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

Acquisitions

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

Dividends

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

The ability of CIT to pay dividends on common stock may be affected by, among other things, various capital requirements, particularly the capital and non-capital standards established for depository institutions under FDICIA, which may limit the ability of CIT Bank to pay dividends to CIT. The right of CIT, its stockholders, and its creditors to participate in any distribution of the assets or earnings of its subsidiaries is further subject to prior claims of creditors of CIT Bank and CIT s other subsidiaries.

OCC regulations impose limitations on the payment of dividends by CIT Bank. These regulations limit dividends if the total amount of all dividends (common and preferred) declared in any current year, including the proposed dividend, exceeds the total net income for the current year to date plus any retained net income for the prior two years, less the sum of any transfers required by the OCC and any transfers required to fund the retirement of any preferred stock. If the dividend in either of the prior two years exceeded that year s net income, the excess shall not reduce the net income for the three year period described above, provided the amount of excess dividends for either of the prior two years can be offset by retained net income in the current year minus three years or the current year minus four years.

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

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

Source of Strength Doctrine and Support for Subsidiary Banks

FRB policy and federal statute require BHCs such as CIT to serve as a source of strength and to commit capital and other financial resources to subsidiary banks. This support may be required at times when CIT may not be able to provide such support without

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adversely affecting its ability to meet other obligations. If CIT is unable to provide such support, the FRB could instead require the divestiture of CIT Bank and impose operating restrictions pending the divestiture. Any capital loans by a BHC to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of the subsidiary bank. If a BHC commits to a federal bank regulator that it will maintain the capital of its bank subsidiary, whether in response to the FRB s invoking its source of strength authority or in response to other regulatory measures, that commitment will be assumed by the bankruptcy trustee and the bank will be entitled to priority payment in respect of that commitment.

Enforcement Powers of Federal Banking Agencies

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

FDIC Deposit Insurance

Deposits of CIT Bank are insured by the FDIC Deposit Insurance Fund (DIF) up to $250,000 for each depositor . The DIF is funded by fees assessed on insured depository institutions, including CIT Bank, N.A.

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

The potential adjustments to an institution s initial base assessment rate include (i) potential decrease of up to 5 basis points for certain long-term unsecured debt (unsecured debt adjustment) and, (ii) except for well capitalized institutions with a CAMELS rating of 1 or 2, a potential increase of up to 10 basis points for brokered deposits in excess of 10% of domestic deposits (brokered deposit adjustment). As the DIF reserve ratio grows, the rate schedule will be adjusted downward. Also, an institution must pay an additional premium (the depository institution debt adjustment) equal to 50 basis points on every dollar above 3% of an institution s Tier 1 capital of long-term, unsecured debt held that was issued by another insured depository institution (excluding debt guaranteed under the Temporary Liquidity Guarantee Program). For the year ended December 31, 2015, CIT Bank s FDIC deposit insurance assessment, including FICO assessments, totaled $45 million.

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

Transactions with Affiliates

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

During 2015, CIT Bank purchased $115.8 million of loans from affiliates and received capital infusions from CIT of $88.7 million comprised of loans, certain real property and software, and vendor upgrades used by CIT Bank in the conduct of its business, and CIT Bank and CIT agreed to terminate a Put Agreement pursuant to which CIT Bank could require CIT to repurchase certain loans. CIT Bank maintains sufficient collateral in the form of cash deposits and pledged loans to cover any extensions of credit to its affiliates.

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

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Safety and Soundness Standards

FDICIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation, compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder. In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of the FDIA. See *Prompt Corrective Action* above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil monetary penalties.

Insolvency of an Insured Depository Institution

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

- to transfer any of the depository institution s assets and liabilities to a new obligor without the approval of the depository institution s creditors;

- to enforce the terms of the depository institution s contracts pursuant to their terms; or

- to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmance or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution.

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

Consumer Protection Regulation

Retail banking activities are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by national banks are subject to federal laws concerning interest rates. Loan operations are also subject to numerous laws applicable to credit transactions, such as:

- the federal Truth-In-Lending Act and Regulation Z issued by the CFPB, governing disclosures of credit terms to consumer borrowers;
- the Home Mortgage Disclosure Act and Regulation C issued by the CFPB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- the Equal Credit Opportunity Act and Regulation B issued by the CFPB, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- the Fair Credit Reporting Act and Regulation V issued by the CFPB, governing the use and provision of information to consumer reporting agencies;
- the Fair Debt Collections Practices Act, governing the manner in which consumer debts may be collected by debt collectors;
- the Servicemembers Civil Relief Act, applying to all debts incurred prior to commencement of active military service (including credit card and other open-end debt) and limiting the amount of interest, including service and renewal charges and any other fees or charges (other than bona fide insurance) that is related to the obligation or liability, as well as affording other protections, including with respect to foreclosures; and
- the guidance of the various federal agencies charged with the responsibility of implementing such laws; and
- the Real Estate Settlement Procedures Act and Regulation X issued by the CFPB, requiring disclosures regarding the nature and costs of the real estate settlement process and governing transfers of servicing, escrow accounts, force-placed insurance, and general servicing policies.

Deposit operations also are subject to consumer protection laws and regulation, such as:

1. the Truth in Savings Act and Regulation DD issued by the CFPB, which require disclosure of deposit terms to consumers;
2. Regulation CC issued by the FRB, which relates to the availability of deposit funds to consumers;
3. the Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
4. the Electronic Funds Transfer Act and Regulation E issued by the CFPB, which governs electronic deposits to and withdrawals from deposit accounts and customer rights and liabilities arising from the use of automated teller machines and other electronic banking services, including remittance transfers.

CIT and CIT Bank are also subject to certain other non-preempted state laws and regulations designed to protect consumers. Additionally, CIT Bank is subject to a variety of regulatory and contractual obligations imposed by credit owners, insurers and guarantors of the mortgages we originate and service. This includes, but is not limited to, Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Housing Finance Agency (FHFA), and the Federal Housing Administration (FHA). We are also subject to the requirements of the Home Affordable Modification Program (HAMP), Home Affordable Refinance Program (HARP) and other government programs in which we participate.

Consumer Financial Protection Bureau Supervision (CFPB)

The CFPB is authorized to interpret and administer, and to issue orders or guidelines pursuant to, any federal consumer financial laws, as well as to directly examine and enforce compliance with those laws by depository institutions with assets of $10 billion or more, such as CIT Bank. The CFPB regulates and examines CIT, CIT Bank, and other subsidiaries with respect to matters that relate to these laws and consumer financial services and products. The CFPB undertook numerous rule-making and other initiatives in 2015, and is expected to continue to do so in 2016. The CFPB s rulemaking, examination and enforcement authority has and will continue to significantly affect financial institutions involved in the provision of consumer financial products and services, including CIT, CIT Bank and CIT s other subsidiaries. These regulatory activities may limit the types of financial services and products CIT may offer, which in turn may reduce CIT s revenues.

As a result of various requirements of the Dodd-Frank Act, CFPB has adopted a number of significant rules that implement amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. The final rules require banks to, among other things: (a) develop and implement procedures to ensure compliance with a new ability to repay requirement and identify whether a loan meets a new definition for a qualified mortgage ; (b) implement new or revised disclosures, policies and procedures for servicing mortgages including, but not limited to, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower s principal residence; and (c) comply with additional rules and restrictions regarding mortgage loan originator compensation and the qualification and registration or licensing of loan originators.

The CFPB and other federal agencies have also jointly finalized rules imposing credit risk retention requirements on lenders originating certain mortgage loans, which require sponsors of a securitization to retain at least 5 percent of the credit risk of assets collateralizing asset-backed securities. Residential mortgage-backed securities qualifying as qualified residential mortgages will be exempt from the risk retention requirements. The final rule maintains revisions to the proposed rules that cover degrees of flexibility for meeting risk retention requirements and the relationship between qualified mortgages and qualified residential mortgages. These rules and any other new regulatory requirements promulgated by the CFPB could require changes to the Company s mortgage origination and servicing businesses, result in increased compliance costs and affect the streams of revenue of such businesses.

Over the last few years, the reverse mortgage business has been subject to substantial amendments to federal laws, regulations and administrative guidance. The U.S. Department of Housing and Urban Development (HUD), through the FHA, amended or clarified both origination and servicing requirements related to Home Equity Conversion Mortgages (HECMs) through a series of issuances during 2015 and 2014. These program changes related to advertising, restrictions on loan provisions, limitations on payment methods, new underwriting requirements, revised principal limits, revised financial assessment and property charge requirements, and the treatment of non-borrowing spouses.

Community Reinvestment Act

The CRA requires depository institutions like CIT Bank to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice by, among other things, providing credit to low-and moderate-income individuals and communities. The CRA does not establish specific lending requirements or programs for depository institutions nor does it limit an institution s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings, which are made available to the public. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of applications to acquire, merge, or consolidate with another banking institution or its holding company, to establish a new branch office that will accept deposits or to relocate an office, and such record may be the basis for denying the application. Prior to the OneWest Bank acquisition, both CIT Bank and OneWest Bank received a rating of Satisfactory on its most recent CRA examination by the FDIC and OCC, respectively.

Incentive Compensation

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

In June 2010, the federal banking agencies issued comprehensive final guidance intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon

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the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act discussed above.

Anti-Money Laundering (AML) and Economic Sanctions

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

Anti-corruption

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

Privacy Provisions and Customer and Client Information

Certain aspects of the Company s business are subject to legal requirements concerning the use and protection of customer information, including those adopted pursuant to Gramm-Leach-Biley Act (GLBA) and the Fair and Accurate Credit Transactions Act of 2003 in the U.S., the E.U. Data Protection Directive, and various laws in Asia and Latin America. Federal banking regulators, as required under the GLBA, have adopted rules limiting the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to nonaffiliated third parties. The privacy provisions of the GLBA affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors. Federal financial regulators have issued regulations under the Fair and Accurate Credit Transactions Act that have the effect of increasing the length of the waiting period, after privacy disclosures are provided to new customers, before information can be shared among different affiliated companies for the purpose of cross-selling products and services between those affiliated companies. In many foreign jurisdictions, the Company is also restricted from sharing customer or client information with third party non-affiliates.

Other Regulations

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

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

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

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

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

WHERE YOU CAN FIND MORE INFORMATION

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

The Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, as well as our Proxy Statement, are available free of charge on the Company s Internet site at http://www.cit.com as soon as reasonably practicable after such material is electronically filed or furnished with the SEC. Copies of our Corporate Governance Guidelines, the Charters of the Audit Committee, the Compensation Committee, the Nominating and Governance Committee, the Regulatory Compliance Committee, and the Risk Management Committee, and our Code of Business Conduct are available, free of charge, on our internet site at www.cit.com/investor, and printed copies are available by contacting Investor Relations, 1 CIT Drive, Livingston, NJ 07039 or by telephone at (973) 740-5000. Information contained on our website or that can be accessed through our website is not incorporated by reference into this Form 10-K, unless we have specifically incorporated it by reference.

GLOSSARY OF TERMS

Accretable Yield reflects the excess of cash flows expected to be collected (estimated fair value at acquisition date) over the recorded investment of purchase credit impaired (PCI) loans and investments (defined below) and is recognized in interest income using an effective yield method over the expected remaining life. The accretable yield is affected by changes in interest rate indices for variable rate PCI loans, changes in prepayment assumptions and changes in expected principal and interest payments and collateral values.

Available-for-sale (AFS) is a classification that pertains to debt and equity securities. We classify these securities as AFS when they are not considered trading securities, securities carried at fair value, or held-to-maturity securities. Loans and operating lease equipment that we classify in assets held for sale (AHFS) generally pertain to assets we no longer have the intent or ability to hold until maturity.

Average Earning Assets (AEA) is computed using month end balances and is the average of earning assets (defined below). We use this average for certain key profitability ratios, including return on AEA, Net Finance Revenue as a percentage of AEA and operating expenses as a percentage of AEA.

Average Finance Receivables (AFR) is computed using month end balances and is the average of finance receivables (defined below), which does not include amounts held for sale. We use this average to measure the rate of net charge-offs for the period.

Average Operating Leases (AOL) is computed using month end balances and is the average of operating lease equipment, which does not include amounts held for sale. We use this average to measure the rate of return on our operating lease portfolio for the period.

Covered Loans are loans that CIT may be reimbursed for a portion of future losses under the terms of loss sharing agreements (defined below) with the FDIC. See Indemnification Assets.

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

Derivative Contract is a contract whose value is derived from a specified asset or an index, such as an interest rate or a foreign currency exchange rate. As the value of that asset or index changes, so does the value of the derivative contract. We use derivatives to manage interest rate, foreign currency or credit risks. The derivative contracts we use may include interest-rate swaps, interest rate caps, cross-currency swaps, foreign exchange forward contracts, and credit default swaps.

Earning Assets is the sum of finance receivables (defined below), operating lease equipment, financing and leasing assets held for sale, interest-bearing cash, securities purchased under agreements to resell and investments less the credit balances of factoring clients.

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

FICO Score is a credit bureau-based industry standard score developed by the Fair Isaac Corporation (currently named FICO) that predicts the likelihood of borrower default. We use FICO scores in underwriting and assessing risk in our consumer lending portfolio.

Finance Receivables include loans, capital lease receivables and factoring receivables held for investment, and does not include amounts contained within AHFS. In certain instances, we use the term Loans synonymously, as presented on the balance sheet.

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

Gross Yield is calculated as finance revenue divided by AEA.

Indemnification Assets relate to asset purchases completed by OneWest Bank, in which the FDIC indemnified OneWest Bank prior to its acquisition by CIT against certain future losses in accordance with the Loss Sharing Agreements, as defined below. The indemnification assets were acquired by CIT in connection with the OneWest Transaction.

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

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

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

Loan-to-Value Ratio (LTV) is a calculation of a loan s collateral coverage that is used in underwriting and assessing risk in our lending portfolio. LTV is the result of the total loan obligations secured by collateral divided by the fair value of the collateral.

Loss Sharing Agreements are agreements in which the FDIC indemnified OneWest Bank against certain future losses. See Indemnification Assets defined above. The loss sharing agreements generally require CIT to obtain FDIC approval prior to transferring or selling loans and related indemnification assets. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., charge-off of loan balance or liquidation of collateral). Reimbursements approved by the FDIC usually are received within 60 days of submission. Receivables related to these indemnification assets are referred to as Covered Loans.

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

Measurement Period is the period of time that an acquirer has to adjust provisional amounts assigned to acquired assets or liabilities. The measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure various items in a business combination.

Net Efficiency Ratio is a non-GAAP measure that measures the level of operating expenses to our revenue generation. It is calculated by dividing operating expenses, excluding intangible assets amortization, goodwill impairment, and restructuring charges, by Total Net Revenue. This calculation may not be similar to other financial institutions ratio due to the inclusion of operating lease revenue and associated expenses, and the exclusion of the noted items.

Net Finance Revenue (NFR) is a non-GAAP measurement defined as Net Interest Revenue (defined below) plus rental income on operating lease equipment less depreciation and maintenance and other operating lease expenses. When divided by AEA, the product is defined as Net Finance Margin (NFM). These are key measures used by management in the evaluation of the financial performance of our business. While other financial institutions may use net interest margin (NIM), defined as interest income less interest expense, we discuss NFR, which includes net operating lease revenue (operating lease rental revenue, less depreciation expense and maintenance and other operating lease expenses), due to the significant revenue impact of operating lease equipment and the fact that a portion of interest expense reflects the funding of operating lease equipment.

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

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

Net Operating Loss Carryforward / Carryback (NOL) is a tax concept, whereby tax losses in one year can be used to offset taxable income in other years. For example, a U.S. Federal NOL can first be carried-back and applied against taxable income recorded in the two preceding years with any remaining amount being carried-forward for the next twenty years to offset future taxable income. The rules pertaining to the number of years allowed for the carryback or carryforward of an NOL varies by jurisdiction.

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

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

Non-performing Assets include non-accrual assets (described above) combined with OREO and repossessed assets.

Other Income includes (1) factoring commissions, (2) gains and losses on sales of leasing equipment (3) fee revenues, including fees on lines of credit, letters of credit, capital market related

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fees, agent and advisory fees and servicing fees (4) gains and losses on loan and portfolio sales, (5) gains and losses on investments, (6) gains and losses on sales of other real estate owned, (7) gains and losses on derivatives and foreign currency exchange, (8) impairment on assets held for sale, and (9) other revenues. Service charges (fee income) on deposit accounts primarily represent monthly fees based on minimum balances or transaction-based fees. Loan servicing revenue includes fees collected for the servicing of loans not owned by the Company. Other income combined with rental income on operating leases is defined as Non-interest income. Non-interest income is recognized in accordance with relevant authoritative pronouncements.

Other Real Estate Owned (OREO) is a term applied to real estate property owned by a financial institution. OREO are considered non-performing assets.

Purchase Accounting Adjustments (PAA) reflect accretable and non-accretable components of the fair value adjustments to acquired assets and liabilities assumed in a business combination. Accretable adjustments reflect the accretion or amortization of the discounts and premiums and flow through the related line items on the income statement (interest income, interest expense, non-interest income and other expenses) over the weighted average life of the assets or liabilities. The accretable adjustments are recognized using an applicable methodology, such as the effective interest method, and the retrospective method specific to reverse mortgages. These primarily relate to interest adjustments on loans and leases, as well as deposits and borrowings. The PAA for the intangible assets is amortized over the respective life of the underlying intangible asset and recorded in Operating expenses. Non-accretable adjustments, for instance credit related write-downs on loans, become adjustments to the basis of the asset and flow back through the statement of income only upon the occurrence of certain events, such as, but not limited to repayment or sale.

Purchase Credit Impaired (PCI) *Loans* and *PCI Investments* are loans and investments that at the time of an acquisition are considered impaired under ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality). These are determined to be impaired as there was evidence of credit deterioration since origination of the loan and investment and for which it was probable that all contractually due amounts (principal and interest) would not be collected.

Regulatory Credit Classifications used by CIT are as follows:

- *Pass* These assets do not meet the criteria for classification in one of the other categories;

- *Special Mention* These assets exhibit potential weaknesses that deserve management s close attention and if left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects;

- *Substandard* These assets are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected;

- *Doubtful* These assets have weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values and

- *Loss* These assets are considered uncollectible and of little or no value and are generally charged off.

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

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

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

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

Tangible Book Value (TBV) excludes goodwill and intangible assets from total stockholders equity. We use TBV in measuring tangible book value per share.

Common Tier 1 Capital, Tier 1 Capital and Total Capital are regulatory capital as defined in the capital adequacy guidelines issued by the Federal Reserve. Common Tier 1 Capital is total stockholders equity reduced by goodwill and intangible assets and adjusted by elements of other comprehensive income and other items. Tier 1 Capital is Common Tier 1 Capital plus other additional Tier 1 Capital instruments included, among other things, non-cumulative preferred stock. Total Capital consists of Common Tier 1, additional Tier 1 and, among other things, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, and allowance for loan losses up to 1.25% of risk weighted assets.

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

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

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

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

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

Acronyms

The following is a list of acronyms we use throughout this document:

Acronym	Definition	Acronym	Definition
AFS	Available for Sale	HELOC	Home Equity Lines of Credit
AHFS	Assets Held for Sale	HFI	Held for Investment
ALLL	Allowance for Loan and Lease Losses	HTM	Held to Maturity
ALM	Asset and Liability Management	HUD	U.S. Department of Housing and Urban Development
AOCI	Accumulated Other Comprehensive Income	LCM	Legacy Consumer Mortgages
ARM	Adjustable Rate Mortgage	LCR	Liquidity Coverage Ratio
ASC	Accounting Standards Codification	LGD	Loss Given Default
ASU	Accounting Standards Update	LIHTC	Low Income Housing Tax Credit
AVA	Actuarial Valuation Allowance	LOCOM	Lower of the Cost or Market Value
BHC	Bank Holding Company	LTV	Loan-to-Value
CCAR	Comprehensive Capital Analysis and Review	MBS	Mortgage-Backed Securities
CDI	Core Deposit Intangibles	MSR	Mortgage Servicing Rights
CET 1	Common Equity Tier 1	NFR	Net Finance Revenue
CRA	Community Reinvestment Act	NII Sensitivity	Net Interest Income Sensitivity
CTA	Currency Translation Adjustment	NIM	Net Interest Margin

Acronym	Definition	Acronym	Definition
DCF	Discounted Cash Flows	NOLs	Net Operating Loss Carry-Forwards
DPA	Deferred Purchase Agreement	OCC	Office of the Comptroller of the Currency
DTAs	Deferred Tax Assets	OCI	Other Comprehensive Income
DTLs	Deferred Tax Liabilities	OREO	Other Real Estate Owned
ECAP	Enterprise Stress Testing and Economic Capital	OTTI	Other than Temporary Impairment
EMC	Executive Management Committee	PAA	Purchase Accounting Adjustments
ERM	Enterprise Risk Management	PB	Primary Beneficiary
EVE	Economic Value of Equity	PCI	Purchased Credit-Impaired Loans/Securities
FDIC	Federal Deposit Insurance Corporation	PD	Probability of Obligor Default
FHA	Federal Housing Administration	ROA	Return on Average Earning Assets
FHC	Financial Holding Company	ROTCE	Return on Tangible Common Stockholders Equity
FHLB	Federal Home Loan Bank	SBA	Small Business Administration
FLA	Financing and Leasing Assets	SEC	Securities and Exchange Commission
FNMA	Federal National Mortgage Association	SFR	Single Family Residential
FRB	Board of Governors of the Federal Reserve System	SOP	Statement of Position
FRBNY	Federal Reserve Bank of New York	TBV	Tangible Book Value
FSA	Fresh Start Accounting	TCE	Tangible Common Stockholders Equity
FV	Fair Value	TDR	Troubled Debt Restructuring
GAAP	Accounting Principles Generally Accepted in the U.S.	TRS	Total Return Swaps
GSEs	Government-Sponsored Enterprises	UPB	Unpaid Principal Balance
HECM	Home Equity Conversion Mortgage	VIE	Variable Interest Entity

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Item 1A. Risk Factors

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

Strategic Risks

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

A number of strategic issues affect our business, including how we allocate our capital and liquidity, our business strategy, our funding models, and the quality and efficiency of operations. We developed our strategy and business plan based upon certain assumptions, analyses, and financial forecasts, including with respect to our capital levels, funding model, credit ratings, revenue growth, earnings, interest margins, expense levels, cash flow, credit losses, liquidity and financing sources, lines of business and geographic scope, acquisitions and divestitures, equipment residual values, capital expenditures, retention of key employees, and the overall strength and stability of general economic conditions. Financial forecasts are inherently subject to many uncertainties and are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. Accordingly, our actual financial condition and results of operations may differ materially from what we have forecast. If we are unable to implement our strategic initiatives effectively, we may need to refine, supplement, or modify our business plan and strategy in significant ways. If we are unable to fully implement our business plan and strategy, it may have a material adverse effect on our business, results of operations and financial condition.

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

As part of our strategy and business plan, we may consider engaging in business or asset acquisitions or sales to manage our business, the products and services we offer, and our asset levels, credit exposures, or liquidity position. There are a number of risks inherent in acquisition and sale transactions, including the risk that we fail to identify or acquire key businesses or assets, that we fail to complete a pending transaction, that we fail to sell a business or assets that are considered non-strategic or high risk, that we overpay for an acquisition or receive inadequate consideration for a disposition, or that we fail to properly integrate an acquired company or to realize the anticipated benefits from the transaction. We acquired IMB HoldCo LLC and its subsidiary, OneWest Bank, N.A., in 2015 and two businesses, Nacco and Direct Capital, in 2014. We sold our equipment financing portfolio in the U.K. in January 2016; equipment financing portfolios in Mexico and Brazil in 2015; and our student lending portfolio, small business lending portfolio, and various financing portfolios in Europe, Asia, and Latin America in 2014. We are currently looking at strategic alternatives for our Commercial Aerospace business, which may be structured as a spin-off or sale, and we have transferred our financings in Canada and China into assets held for sale.

In engaging in business acquisitions, CIT may decide to pay a premium over book and market values to complete the transaction, which may result in some dilution of our tangible book value and net income per common share. If CIT uses substantial cash or other liquid assets or incurs substantial debt to acquire a business or assets, we could become more susceptible to economic downturns and competitive pressures. CIT used a combination of cash ($1.9 billion) and common stock (30.9 million shares valued at $1.5 billion) to complete the OneWest Transaction. Integrating the operations of an acquired entity can be difficult. Prior to completing the OneWest Transaction, CIT and OneWest Bank had different policies, procedures, and processes, including accounting, credit and other risk and reporting policies, and utilized different systems, which are requiring significant time, cost, and effort to integrate. As a result, CIT may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. CIT may also be exposed to other risks inherent in an acquisition, including the risk of unknown or contingent liabilities, changes in our credit, liquidity, interest rate or other risk profiles, potential asset quality issues, potential disruption of our existing business and diversion of management s time and attention, possible loss of key employees or customers of the acquired business, and the risk that certain items were not accounted for properly by the seller in accordance with financial accounting and reporting standards. If we fail to realize the expected revenue increases, cost savings, increases in geographic or product scope, and/or other projected benefits from an acquisition, or if we are unable to adequately integrate the acquired business, or experience unexpected costs, changes in our risk profile, or disruption to our business, it could have a material adverse effect on our business, financial condition, and results of operations.

CIT must generally receive regulatory approval before it can acquire a bank or BHC or for any acquisition in which the assets acquired exceeds $10 billion. We cannot be certain when or if, or on what terms and conditions, any required regulatory approval may be granted. We may be required to sell assets or business units as a condition to receiving regulatory approval. If CIT fails to close a pending transaction for any reason, including failure to obtain either regulatory approvals or shareholder approval, CIT may be exposed to potential disruption of our business, diversion of management s time and attention, risk from a failure to diversify our business and products, and increased expenses without a commensurate increase in revenues.

As a result of economic cycles and other factors, the value of certain asset classes may fluctuate and decline below their historic

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cost. If CIT is holding such businesses or asset classes, we may not recover our carrying value if we sell such businesses or assets or we may end up with a higher risk exposure to specific customers, industries, asset classes, or geographic regions than we have targeted. In addition, potential purchasers may be unwilling to pay an amount equal to the face value of a loan or lease if the purchaser is concerned about the quality of our credit underwriting. Potential purchasers may also be unwilling to pay adequate consideration for a business or assets depending on the nature of any financial, legal, or tax structures of the business, the regulatory or geographic exposure of the business, the projected growth rate of the business, or the size or nature of its outstanding commitments. These transactions, if completed, may reduce the size of our business and we may not be able to replace the lending and leasing activity associated with these businesses. As a result, future disposition of assets could have a material adverse effect on our business, financial condition and results of operations.

We may incur losses on loans, securities and other acquired assets of OneWest Bank that are materially greater than reflected in our fair value adjustments.

We accounted for the OneWest Transaction under the purchase method of accounting, recording the acquired assets and liabilities of OneWest Bank at fair value. All PCI loans acquired in the OneWest Transaction were recorded at fair value based on the present value of their expected cash flows. We estimated cash flows using internal credit, interest rate and prepayment risk models using assumptions about matters that are inherently uncertain. We may not realize the estimated cash flows or fair value of these loans. In addition, although the difference between the pre-acquisition carrying value of the credit-impaired loans and their expected cash flows the non-accretable difference is available to absorb future charge-offs, we may be required to increase our allowance for credit losses and related provision expense because of subsequent additional deterioration in these loans.

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

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

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

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

Capital and Liquidity Risks

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

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

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

business operations.

CIT s liquidity is essential for the operation of our business. Our liquidity, and our ability to issue debt in the capital markets or fund our activities through bank deposits, could be affected by a number of factors, including market conditions, our capital structure and capital levels, our credit ratings, and the performance of our business. An adverse change in any of those factors, and particularly a downgrade in our credit ratings, could negatively affect CIT s liquidity and competitive position, increase our funding costs, or limit our access to the capital markets or deposit markets. Further, an adverse change in the performance of our business could have a negative impact on our operating cash flow. CIT s credit ratings are subject to ongoing review by the

rating agencies, which consider a number of factors, including CIT s own financial strength, performance, prospects, and operations, as well as factors not within our control, including conditions affecting the financial services industry generally. There can be no assurance that we will maintain or increase our current ratings, which currently are not investment grade at the holding company level. If we experience a substantial, unexpected, or prolonged change in the level or cost of liquidity, or fail to generate sufficient cash flow to satisfy our obligations, it could materially adversely affect our business, financial condition, or results of operations.

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

CIT Bank currently has a branch network with 70 branches, which offer a variety of deposit products. However, CIT also must rely on its online bank, brokered deposits, and certain deposit sweep accounts to raise additional deposits. Our ability to raise deposits and offer competitive interest rates on deposits is dependent on CIT Bank s capital levels. Federal banking law generally prohibits a bank from accepting, renewing or rolling over brokered deposits, unless the bank is well-capitalized or it is adequately capitalized and obtains a waiver from the FDIC. There are also restrictions on interest rates that may be paid by banks that are less than well capitalized, under which such a bank generally may not pay an interest rate on any deposit of more than 75 basis points over the national rate published by the FDIC, unless the FDIC determines that the bank is operating in a high-rate area. Continued expansion of CIT Bank s retail online banking platform to diversify the types of deposits that it accepts may require significant time, effort, and expense to implement. We are likely to face significant competition for deposits from larger BHCs who are similarly seeking larger and more stable pools of funding. If CIT Bank fails to expand and diversify its deposit-taking capability, it could have an adverse effect on our business, results of operations, and financial condition.

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

CIT is a legal entity separate and distinct from its subsidiaries, including CIT Bank, and relies on dividends from its subsidiaries for a significant portion of its cash flow. Federal banking laws and regulations limit the amount of dividends that CIT Bank can pay. BHCs with assets in excess of $50 billion must develop and submit to the FRB for review an annual capital plan detailing their plans for the payment of dividends on their common or preferred stock or the repurchase of common stock. If our capital plan were not approved or if we do not satisfy applicable capital requirements, our ability to undertake capital actions may be restricted. We cannot determine whether the FRBNY will object to future capital returns.

Regulatory and Legal Risks

We could be adversely affected by the additional enhanced prudential supervision requirements applicable to large banking organizations due to the acquisition of IMB Holdco LLC and OneWest Bank.

When we acquired IMB Holdco LLC and its subsidiary, OneWest Bank we exceeded the $50 billion threshold and became subject to the FRB s enhanced prudential standards applicable to BHC s with an average of $50 billion or more of assets for the prior four quarters. There are a number of regulations that are now applicable to us that are not applicable to smaller banking organizations, including but not limited to enhanced rules on capital plans and stress testing, enhanced governance standards, liquidity stress testing and enhanced reporting requirements, and a requirement to develop a resolution plan. Each of these rules will require CIT to dedicate significant time, effort, and expense to comply with the enhanced standards and requirements. If we fail to develop at a reasonable cost the systems and processes necessary to comply with the enhanced standards and requirements imposed by these rules, it could have a material adverse effect on our business, financial condition, or results of operations.

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

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

Proposals for legislation to further regulate, restrict, and tax certain financial services activities are continually being introduced in the United States Congress and in state legislatures. The Dodd-Frank Act, which was adopted in 2010, constitutes the most wide-ranging overhaul of financial services regulation in decades, including provisions affecting, among other things, (i) corporate governance and executive compensation of companies whose securities are registered with the SEC, (ii) FDIC insurance assessments based on asset levels rather than deposits, (iii) minimum capital levels for BHCs, (iv) derivatives activities, proprietary trading, and private investment funds offered by financial institutions, and (v) the regulation of large financial institutions. In addition, the Dodd-Frank Act established additional regulatory bodies, including the FSOC, which is charged with identifying systemic risks, promoting stronger financial regulation, and identifying those non-bank companies that are systemically important , and the CFPB, which has broad authority to establish a federal regulatory framework for consumer financial protection. The agencies regulating the financial services industry periodically adopt changes to their regulations and are still finalizing regulations to implement various provisions of the Dodd-Frank Act. In recent

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years, regulators have increased significantly the level and scope of their supervision and regulation of the financial services industry. We are unable to predict the form or nature of any future changes to statutes or regulation, including the interpretation or implementation thereof. Such increased supervision and regulation could significantly affect our ability to conduct certain of our businesses in a cost-effective manner, restrict the type of activities in which we are permitted to engage, or subject us to stricter and more conservative capital, leverage, liquidity, and risk management standards. Any such action could have a substantial impact on us, significantly increase our costs, limit our growth opportunities, affect our strategies and business operations and increase our capital requirements, and could have an adverse effect on our business, financial condition and results of operations.

Our Aerospace, Rail, Maritime, and other equipment financing operations are subject to various laws, rules, and regulations administered by authorities in jurisdictions where we do business. In the U.S., our equipment leasing operations, including for aircraft, railcars, ships, and other equipment, are subject to rules and regulations relating to safety, operations, maintenance, and mechanical standards promulgated by various federal and state agencies and industry organizations, including the U.S. Department of Transportation, the Federal Aviation Administration, the Federal Railroad Administration, the Association of American Railroads, the Maritime Administration, the U.S. Coast Guard, and the U.S. Environmental Protection Agency. In 2015, the U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA) and Transport Canada (TC) each released final rules establishing enhanced design and performance criteria for tank cars loaded with a flammable liquid and requiring retrofitting of existing tank cars to meet the enhanced standards within a specified time frame. In addition, the U.S. Congress enacted the Fixing America s Surface Transportation Act (FAST Act), which, among other things, expanded the scope of tank cars classified as carrying flammable liquids, added additional design and performance criteria for tank cars in flammable service, and required additional studies of certain criteria established by PHMSA and TC. In addition, state agencies regulate some aspects of rail and maritime operations with respect to health and safety matters not otherwise preempted by federal law. Our business operations and our equipment leasing portfolios may be adversely impacted by rules and regulations promulgated by governmental and industry agencies, which could require substantial modification, maintenance, or refurbishment of our aircraft, railcars, ships, or other equipment, or potentially make such equipment inoperable or obsolete. Violations of these rules and regulations can result in substantial fines and penalties, including potential limitations on operations or forfeitures of assets.

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

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

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

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

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

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

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

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Our investments in certain tax-advantaged projects may not generate returns as anticipated and may have an adverse impact on our financial results.

We invest in certain tax-advantaged projects promoting affordable housing, community development and renewable energy resources. Our investments in these projects are designed to generate a return primarily through the realization of federal and state income tax credits, and other tax benefits, over specified time periods. We are subject to the risk that previously recorded tax credits, which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level, will fail to meet certain government compliance requirements and will not be able to be realized. The risk of not being able to realize the tax credits and other tax benefits depends on many factors outside of our control, including changes in the applicable tax code and the ability of the projects to be completed. If we are unable to realize these tax credits and other tax benefits, it may have a material adverse effect on our financial results.

We previously originated and securitized and currently service reverse mortgages, which subjects us to additional risks and could have a material adverse effect on our business, liquidity, financial condition, and results of operations.

We previously originated and securitized and currently service reverse mortgages. The reverse mortgage business is subject to substantial risks, including market, credit, interest rate, liquidity, operational, reputational and legal risks. A reverse mortgage is a loan available to seniors aged 62 or older that allows homeowners to borrow money against the value of their home. We depend on our ability to securitize reverse mortgages, subsequent draws, mortgage insurance premiums and servicing fees, and would be adversely affected if our ability to access the securitization market were to be limited. Defaults on reverse mortgages leading to foreclosures may occur if borrowers fail to meet maintenance obligations, such as payment of taxes or home insurance premiums, or fail to meet requirements to occupy the premises. An increase in foreclosure rates may increase our cost of servicing. We may become subject to negative publicity if defaults on reverse mortgages lead to foreclosures or evictions of senior homeowners.

As a reverse mortgage servicer, we are responsible for funding any payments due to borrowers in a timely manner, remitting to credit owners interest accrued, paying for interest shortfalls, and funding advances such as taxes and home insurance premiums. During any period in which a borrower is not making required real estate tax and property insurance premium payments, we may be required under servicing agreements to advance our own funds to pay property taxes, insurance premiums, legal expenses and other protective advances. We also may be required to advance funds to maintain, repair and market real estate properties. In certain situations, our contractual obligations may require us to make certain advances for which we may not be reimbursed. In addition, if a mortgage loan serviced by us defaults or becomes delinquent, the repayment to us of the advance may be delayed until the mortgage loan is repaid or refinanced or liquidation occurs. A delay in collecting advances may adversely affect our liquidity, and a failure to be reimbursed for advances could adversely affect our business, financial condition or results of operations. Advances are typically recovered upon weekly or monthly reimbursement or from securitization in the market. We could receive requests for advances in excess of amounts we are able to fund, which could materially and adversely affect our liquidity. All of the above factors could have a material adverse effect on our business, liquidity, financial condition and results of operations.

Material changes to the laws, regulations, rules or practices applicable to reverse mortgage programs operated by the FHA, HUD or the government-sponsored enterprises, or a loss of our approved status under such programs, could adversely affect our reverse mortgage division.

The mortgage industry, including both forward mortgages and reverse mortgages, is largely dependent upon the FHA, HUD and government-sponsored enterprises, like the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). There can be no guarantee that any or all of these entities will continue to participate in the mortgage industry, including forward mortgages and reverse mortgages, or that they will not make material changes to the laws, regulations, rules or practices applicable to the mortgage industry. For example, the FHA has issued regulations since January 1, 2013 governing its reverse mortgage program that impact initial mortgage insurance premiums and principal limit factors, impose restrictions on the amount of funds that senior borrowers may draw down at closing and during the first 12 months after closing, and will require a financial assessment for all borrowers to ensure that they have the capacity and willingness to meet their financial obligations and the terms of the reverse mortgage. In addition, the changes require borrowers to set aside a portion of the loan proceeds they receive at closing (or withhold a portion of monthly loan disbursements) for the payment of property taxes and homeowners insurance based on the results of the financial assessment. Similarly, the CFPB has issued new rules for mortgage origination and mortgage servicing. Both the origination and servicing rules create new private rights of action for consumers against lenders and servicers in the event of certain violations.

Additionally, two GSEs (Fannie Mae and Freddie Mac) are currently in conservatorship, with their primary regulator acting as a conservator. We cannot predict when or if the conservatorships will end or whether, as a result of legislative or regulatory action, there will be any associated changes to the structure of these GSEs or the housing finance industry more generally, including, but not limited to, changes to the structure of these GSEs or the housing finance industry more generally, including, but not limited to, changes to the relationship among these GSEs, the government and the private markets. The effects of any such reform on our business and financial results are uncertain.

Any material changes to the laws, regulations, rules or practices applicable to our residential mortgage business could have a material adverse effect on our overall business and our financial position, results of operations and cash flows.

If we are determined to be liable with respect to interest curtailment obligations or compensatory fees on both forward mortgages and reverse mortgages arising out of servicing errors, and we are required to record incremental charges for such amounts, there may be an adverse impact on our results of operations or financial condition.

We have originated and securitized, as well as acquired through multiple portfolio purchases, both forward mortgages and reverse mortgages for which we have retained the servicing rights. Certain of these mortgage loans are insured and guaranteed by the FHA, which is administered by HUD. FHA regulations provide that servicers must meet a series of event-specific timeframes during the default, foreclosure, conveyance, and mortgage insurance claim cycles. Failure to timely meet any processing deadline may stop the accrual of debenture interest otherwise payable in satisfaction of a claim under the FHA mortgage insurance contract and the servicer may be responsible to HUD for debenture interest that is not self-curtailed or for making the credit owner whole for any interest curtailed by HUD due to not meeting the required event-specific timeframes. The penalty HUD applies for failure to meet the foreclosure timeline is curtailment of interest from the date of failure (e.g. the date to take the first legal action in the foreclosure process is missed) to the claims settlement date, which might be months or years after the missed deadline.

As a servicer of forward residential mortgage loans and reverse mortgage loans owned by the GSEs, the servicing guides provide that servicers may become liable for so-called compensatory fees for certain delays in completing the foreclosure process with respect to defaulted loans. The compensatory fee formula represents the pass-through interest rate multiplied by the unpaid principal balance multiplied by the number of days of purported servicer delay (i.e. beyond the allowable time frame established by the GSEs) which might be months or years depending on the state and jurisdiction. If we are required to record incremental charges for interest curtailment obligations or for compensatory fees, there may be a material adverse effect on our results of operations or financial condition.

Credit and Market Risks

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

CIT s ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. CIT has exposure to many different industries and counterparties, and it routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual funds, private equity funds, and hedge funds, and other institutional clients. Defaults by, or even rumors or questions about, one or more financial institutions, or the financial services industry generally, could affect market liquidity and could lead to losses or defaults by us or by other institutions. Many of these transactions could expose CIT to credit risk in the event of default by its counterparty or client. In addition, CIT s credit risk may be impacted if the collateral held by it cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due to CIT. There is no assurance that any such losses would not adversely affect, possibly materially, CIT.

Our Commercial Aerospace business is concentrated by industry and our retail banking business is concentrated geographically, and any downturn in the aerospace industry or in the geographic area of our retail banking business may have a material adverse effect on our business.

Most of our business is diversified by customer, industry, and geography. However, although our Commercial Aerospace business is diversified by customer and geography, it is concentrated in one industry and represents over 20% of our financing and leasing assets. If there is a significant downturn in commercial air travel, it could have a material adverse effect on our business and results of operations.

Our retail banking business is primarily concentrated within our retail branch network, which is located in Southern California. Although our other businesses are national in scope, these other businesses also have a presence within the Southern California geographic market. Adverse conditions in the Southern California geographic market, such as inflation, unemployment, recession, natural disasters, or other factors beyond our control, could impact the ability of borrowers in Southern California to repay their loans, decrease the value of the collateral securing loans in Southern California, or affect the ability of our customers in Southern California to continue conducting business with us, any of which could have a material adverse effect on our business and results of operations.

Our allowance for loan losses may prove inadequate.

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

Our allowance for loan losses may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, if we are unable to collect the full amount on accounts receivable taken as collateral, or if the value of equipment, real estate, or other collateral deteriorates significantly, our allowance for loan losses may prove inadequate, which could have a material adverse effect on our business, results of operations, and financial condition.

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

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

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

If the market value of leased equipment decreases at a rate greater than we projected, whether due to rapid technological or economic obsolescence, unusual wear and tear on the equipment, excessive use of the equipment, recession or other adverse economic conditions, including a significant decrease in the shipment of oil, coal, or other commodities or goods due to changing market conditions, or other factors, it could adversely affect the current values or the residual values of such equipment.

Further, certain equipment residual values, including commercial aerospace residuals, are dependent on the manufacturers or vendors warranties, reputation, and other factors, including market liquidity. Residual values for certain equipment, including aerospace, rail, and medical equipment, may also be affected by changes in laws or regulations that mandate design changes or additional safety features. For example, new regulations issued by the PHMSA in the U.S. and TC in Canada in 2015, and supplemented by the FAST Act in the U.S., will require us to retrofit a significant portion of our tank cars over the next several years in order to continue leasing those tank cars for the transport of crude oil. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

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

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

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

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

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

Furthermore, our international operations could expose us to trade and economic sanctions or other restrictions imposed by the United States or other governments or organizations. The U.S. Department of Justice (DOJ) and other federal agencies and authorities have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for violations of trade sanction laws, the Foreign Corrupt Practices Act (FCPA) and other federal statutes. Under trade sanction laws, the government may seek to impose modifications to business practices, including cessation of business activities with sanctioned parties or in sanctioned countries, and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. If any of the risks described above materialize, it could adversely impact our operating results and financial condition.

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

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

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

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securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions.

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

Changes in interest rates can reduce the value of our mortgage servicing rights and mortgages held for sale, and can make our mortgage banking revenue volatile from quarter to quarter, which can reduce our earnings.

We have a portfolio of mortgage servicing rights (MSRs), which is the right to service a mortgage loan collect principal, interest and escrow amounts for a fee, which we retained after selling or securitizing mortgage loans that we originated or purchased. We initially carry our MSRs at fair value, measured by the present value of the estimated future net servicing income, which includes assumptions about the likelihood of prepayment by borrowers. Changes in interest rates can affect the prepayment assumptions and thus fair value. As interest rates fall, borrowers are usually more likely to prepay their mortgages by refinancing at a lower rate. As the likelihood of prepayment increases, the fair value of MSRs can decrease. Each quarter we evaluate the fair value of our MSRs, and decreases in fair value below amortized cost will reduce earnings in the period in which the decrease occurs. Even if interest rates fall or remain low, mortgage originations may also fall or increase only modestly due to economic conditions or a weak or deteriorating housing market, which may not be enough to offset the decrease in the MSRs value caused by lower rates.

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

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

Aside from a general economic downturn, a downturn in certain industries may result in reduced demand for products that we finance in that industry or negatively impact collection and asset recovery efforts. Decreased demand for the products of various manufacturing customers due to recession may adversely affect their ability to repay their loans and leases with us. Similarly, a decrease in the level of airline passenger traffic or a decline in railroad shipping volumes may adversely affect our aerospace and rail businesses, the value of our aircraft and rail assets, and the ability of our lessees to make lease payments. Further, a decrease in prices or reduced demand for certain raw materials or bulk products, such as oil, coal, or steel, may result in a significant decrease in gross revenues and profits of our borrowers and lessees or a decrease in demand for certain types of equipment for the production, processing and transport of such raw materials or bulk products, including certain specialized railcars, which may adversely affect the ability of our customers to make payments on their loans and leases and the value of our rail assets and other leased equipment.

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

Operational Risks

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

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

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

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

Changes in accounting standards or interpretations could materially impact our reported earnings and financial condition.

The Financial Accounting Standards Board, the SEC and other regulatory agencies periodically change the financial accounting and reporting standards that govern the preparation of CIT s consolidated financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, potentially resulting in changes to previously reported financial results, or a cumulative charge to retained earnings.

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

We rely on quantitative models to measure risks and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distributions to our shareholders, could be affected adversely if their perception is that the quality of the models used to generate the relevant information is insufficient.

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

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

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

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

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

In the course of our business, we may foreclose on and take title to real estate that contains or was used in the manufacture or processing of hazardous materials, or that is subject to other hazardous risks. In addition, we may lease equipment to our customers that is used to mine, develop, process, or transport hazardous materials. As a result, we could be subject to environmental liabilities or claims for negligence, property damage, or personal injury with respect to these properties or equipment. We may be held liable to a governmental entity or to third parties

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for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, accidents or other hazardous risks, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site or equipment involved in a hazardous incident, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination, property damage, personal injury or other hazardous risks emanating from the property or related to the equipment. If we become subject to significant environmental liabilities or claims for negligence, property damage, or personal injury, our financial condition and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

In recent years, there have been several well-publicized attacks on retailers and financial services companies in which the perpetrators gained unauthorized access to confidential information and customer data, often through the introduction of computer viruses or malware, cyber attacks, phishing, or other means. There have also been a series of apparently related denial of service attacks on large financial services companies. In a denial of service attack, hackers flood commercial websites with extraordinarily high volumes of traffic, with the goal of disrupting the ability of commercial enterprises to process transactions and possibly making their websites unavailable to customers for

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extended periods of time. We recently experienced denial of service attacks that targeted a third party service provider that provides software and customer services with respect to our online deposit taking activities, which resulted in temporary disruptions in customers   ability to perform online banking transactions, although no customer data was lost or compromised. Even if not directed at CIT specifically, attacks on other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of our business.

Since January 1, 2013, we have not experienced any material information security breaches involving either proprietary or customer information. However, if we experience cyber attacks or other information security breaches in the future, either the Company or its customers may suffer material losses. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of CIT and its role in the financial services industry, our plans to continue to implement our online banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint and international presence, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

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

Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

Item 2. Properties

CIT primarily operates in North America, with additional locations in Europe, and Asia. CIT occupies approximately 2.2 million square feet of space, which includes office space and branch network, the majority of which is leased.

Item 3. Legal Proceedings

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

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

Item 4. Mine Safety Disclosures

Not applicable.

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PART TWO

Item 5. Market for Registrant’s Common Equity and Related Stockholder Matters

and Issuer Purchases of Equity Securities

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

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

	2015		2014	
	High	Low	High	Low
Common Stock				
First Quarter	$47.83	$43.74	$52.15	$45.46
Second Quarter	$48.07	$44.62	$49.89	$41.52
Third Quarter	$48.51	$39.61	$49.73	$43.50
Fourth Quarter	$46.14	$39.70	$49.45	$44.15

Holders of Common Stock As of February 16, 2016, there were 48,184 beneficial holders of common stock.

Dividends We declared the following dividends in 2015 and 2014:

	Per Share Dividend	
	2015	2014
Declaration Date		
January	$0.15	$0.10
April	$0.15	$0.10
July	$0.15	$0.15
October	$0.15	$0.15

On January 20, 2016, the Board of Directors declared a quarterly cash dividend of $0.15 per share payable on February 26, 2016 to shareholders of record on February 12, 2016.

Shareholder Return The following graph shows the annual cumulative total shareholder return for common stock during the period from December 31, 2010 to December 31, 2015. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes $100 was invested on December 31, 2010. Each of the indices shown assumes that all dividends paid were reinvested.

CIT STOCK PERFORMANCE DATA

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

	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plan approved by the Court	59,095	$31.23	2,781,161*

* Excludes the number of securities to be issued upon exercise of outstanding options and 3,423,923 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.

During 2015, we had no equity compensation plans that were not approved by the Court or by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data, Note 20 Retirement, Postretirement and Other Benefit Plans*.

Issuer Purchases of Equity Securities In April 2015, the Board authorized a $200 million share repurchase program. In January and April 2014, the Board of Directors approved the repurchase of up to $307 million and $300 million, respectively, of common stock through December 31, 2014. On July 22, 2014, the Board of Directors approved an additional repurchase of up to $500 million of common stock through June 30, 2015. All of these approved purchases were completed. Management determined the timing and amount of shares repurchased under the share repurchase authorizations based on market conditions and other considerations. The repurchases were effected via open market purchases and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The repurchased common stock is held as treasury shares and may be used for the issuance of shares under CIT s employee stock plans.

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Total Dollar Amount Purchased Under the Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
				(dollars in millions)	(dollars in millions)
First Quarter Purchases		$45.43	7,298,793	$ 331.6	
Second Quarter Purchases		$45.87	1,329,152	$ 61.0	
Third Quarter Purchases		$46.28	3,003,893	$139.0	
Fourth Quarter Purchases					
October 1 31, 2015		$		$	
November 1 30, 2015		$		$	
December 1 31, 2015		$		$	
		$		$	
Year to date December 31, 2015			11,631,838	$531.6	$

Unregistered Sales of Equity Securities There were no sales of common stock during 2013 and 2014. During the 2015 third quarter, the Company issued 30.9 million shares of unregistered common stock held in treasury, mostly repurchased through share buyback plans, as a component of the purchase price paid for the acquisition of OneWest

Bank. In addition, there were issuances of common stock under equity compensation plans and an employee stock purchase plan, both of which are subject to registration statements.

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Item 6. Selected Financial Data

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

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

Select Data (dollars in millions)

	At or for the Years Ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Select Statement of Income Data					
Net interest revenue	$409.4	$140.3	$194.3	$(1,271.7)	$(532.3)
Provision for credit losses	(160.5)	(100.1)	(64.9)	(51.4)	(269.7)
Total non-interest income	2,372.0	2,398.4	2,278.7	2,515.5	2,739.8
Total non-interest expenses	(2,042.4)	(1,757.8)	(1,673.9)	(1,607.8)	(1,691.9)
Income (loss) from continuing operations	1,067.0	1,077.5	644.4	(535.8)	83.9
Net income (loss)	1,056.6	1,130.0	675.7	(592.3)	14.8
Per Common Share Data					
Diluted income (loss) per common share - continuing operations	$5.72	$5.69	$3.19	$(2.67)	$0.42
Diluted income (loss) per common share	$5.67	$5.96	$3.35	$(2.95)	$0.07
Book value per common share	$54.61	$50.13	$44.78	$41.49	$44.27
Tangible book value per common share	$47.77	$46.83	$42.98	$39.61	$42.23
Dividends declared per common share	$0.60	$0.50	$0.10	$	$
Dividend payout ratio	10.6 %	8.4 %	3.0 %		
Performance Ratios					
Pre-tax return from continuing operations on average common stockholders equity	6.0 %	7.7 %	8.5 %	(4.9)%	2.7 %

	At or for the Years Ended December 31,				
Return on average common stockholders equity	10.9 %	12.8 %	7.8 %	(7.0)%	0.2 %
Net finance revenue as a percentage of average earning assets	3.47 %	3.49 %	3.69 %	(0.07)%	1.58 %
Return from continuing operations on average earnings assets	1.19 %	1.67 %	1.95 %	(1.17)%	0.70 %
Return on average continuing operations total assets	1.93 %	2.37 %	1.56 %	(1.38)%	0.21 %
Balance Sheet Data					
Loans including receivables pledged	$31,671.7	$19,495.0	$18,629.2	$17,153.1	$15,225.8
Allowance for loan losses	(360.2)	(346.4)	(356.1)	(379.3)	(407.8)
Operating lease equipment, net	16,617.0	14,930.4	13,035.4	12,411.7	12,006.4
Goodwill	1,198.3	571.3	334.6	345.9	345.9
Total cash and deposits	8,301.5	7,119.7	6,044.7	6,709.6	7,327.1
Investment securities	2,953.8	1,550.3	2,630.7	1,065.5	1,257.8
Assets of discontinued operation	500.5		3,821.4	4,202.6	7,021.8
Total assets	67,498.8	47,880.0	47,139.0	44,012.0	45,263.4
Deposits	32,782.2	15,849.8	12,526.5	9,684.5	6,193.7
Borrowings	18,539.1	18,455.8	18,484.5	18,330.9	21,743.9
Liabilities of discontinued operation	696.2		3,277.6	3,648.8	4,595.4
Total common stockholders equity	10,978.1	9,068.9	8,838.8	8,334.8	8,883.6
Credit Quality					
Non-accrual loans as a percentage of finance receivables	0.85 %	0.82 %	1.29 %	1.92 %	4.61 %
Net charge-offs as a percentage of average finance receivables	0.55 %	0.52 %	0.44 %	0.46 %	1.70 %
Allowance for loan losses as a percentage of finance receivables	1.14 %	1.78 %	1.91 %	2.21 %	2.68 %
Financial Ratios					
Common Equity Tier 1 Capital Ratio	12.7 %	N/A	N/A	N/A	N/A
Tier 1 Capital Ratio	12.7 %	14.5 %	16.7 %	16.2 %	18.8 %
Total Capital Ratio	13.2 %	15.2 %	17.4 %	17.0 %	19.7 %
Total ending equity to total ending assets	16.3 %	18.9 %	18.8 %	18.9 %	19.6 %

N/A Not applicable under Basel I guidelines.

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Average Balances[1] and Associated Income for the year ended: (dollars in millions)

	December 31, 2015			December 31, 2014			Decem
	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance
Interest bearing deposits	$5,841.3	$17.2	0.29 %	$5,343.0	$17.7	0.33%	$5,531.6
Securities purchased under agreements to resell	411.5	2.3	0.56 %	242.3	1.3	0.54%	
Investment securities	2,239.2	51.9	2.32 %	1,667.8	16.5	0.99%	1,886.0
Loans (including held for sale)[2][3]							
U.S.[2]	24,000.4	1,256.7	5.58 %	16,759.1	905.1	5.88%	14,618.0
Non-U.S.	2,016.2	185.3	9.19 %	3,269.0	285.9	8.75%	4,123.6
Total loans[2]	26,016.6	1,442.0	5.88 %	20,028.1	1,191.0	6.38%	18,741.6
Total interest earning assets / interest income[2][3]	34,508.6	1,513.4	4.58 %	27,281.2	1,226.5	4.73%	26,159.2
Operating lease equipment, net (including held for sale)[4]							
U.S.[4]	8,082.3	692.4	8.57 %	7,755.0	689.6	8.89%	6,559.0
Non-U.S.[4]	7,432.3	588.6	7.92 %	7,022.3	590.9	8.41%	6,197.1
Total operating lease equipment, net[4]	15,514.6	1,281.0	8.26 %	14,777.3	1,280.5	8.67%	12,756.1
Indemnification assets	189.5	(0.5)	(0.26)%				
Total earning assets[2]	50,212.7	$2,793.9	5.73 %	42,058.5	$2,507.0	6.16%	38,915.3
Non interest earning assets							
Cash due from banks	1,365.1			945.0			522.1
Allowance for loan losses	(347.6)			(349.6)			(367.8)
All other non-interest earning assets	4,105.7			2,720.5			2,215.3
Assets of discontinued operation	212.0			1,167.2			4,016.3
Total Average Assets	$55,547.9			$46,541.6			$45,301.2
Average Liabilities							
Borrowings							
Deposits	$22,891.4	$330.1	1.44 %	$13,955.8	$231.0	1.66%	$11,212.1

	December 31, 2015			December 31, 2014			Decem
Borrowings[(5)]	17,863.0	773.4	4.33 %	18,582.0	855.2	4.60%	18,044.5
Total interest-bearing liabilities	40,754.4	1,103.5	2.71 %	32,537.8	1,086.2	3.34%	29,256.6
Non-interest bearing deposits	390.1						
Credit balances of factoring clients	1,492.4			1,368.5			1,258.6
Other non-interest bearing liabilities	2,971.9			2,791.7			2,638.2
Liabilities of discontinued operation	279.1			997.2			3,474.2
Noncontrolling interests	(0.9)			7.0			9.2
Stockholders equity	9,660.9			8,839.4			8,664.4
Total Average Liabilities and Stockholders Equity	$55,547.9			$46,541.6			$45,301.2
Net revenue spread			3.02 %			2.82%	
Impact of non-interest bearing sources			0.45 %			0.67%	
Net revenue/yield on earning assets[(2)]		$1,690.4	3.47 %		$1,420.8	3.49%	

(1) *The average balances presented are derived based on month end balances during the year. Tax exempt income was not significant in any of the years presented. Average rates are impacted by PAA and FSA accretion and amortization.*

(2) *The rate presented is calculated net of average credit balances for factoring clients.*

(3) *Non-accrual loans and related income are included in the respective categories.*

(4) *Operating lease rental income is a significant source of revenue; therefore, we have presented the rental revenues net of depreciation and net of Maintenance and other operating lease expenses.*

(5) *Interest and average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments, and accelerated original issue discount on debt extinguishment related to the GSI facility.*

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The table below disaggregates CIT s year-over-year changes (2015 versus 2014 and 2014 versus 2013) in net interest revenue and operating lease margins as presented in the preceding tables between volume (level of lending or borrowing) and rate (rates charged customers or incurred on borrowings). See Net Finance Revenue section for further discussion.

Changes in Net Finance Revenue (dollars in millions)

	2015 Compared to 2014			2014 Compared to 2013		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income						
Loans (including held for sale and net of credit balances of factoring clients)	$374.2	$(123.2)	$251.0	$82.5	$(117.8)	$(35.3)
Interest bearing deposits	1.6	(2.1)	(0.5)	(0.6)	1.7	1.1
Securities purchased under agreements to resell	0.9	0.1	1.0	1.3		1.3
Investments	5.7	29.7	35.4	(1.4)	5.6	4.2
Interest income	382.4	(95.5)	286.9	81.8	(110.5)	(28.7)
Operating lease equipment, net (including held for sale)[(1)]	63.9	(63.4)	0.5	189.2	(102.4)	86.8
Indemnification assets	(0.5)		(0.5)			
Interest Expense						
Interest on deposits	148.3	(49.2)	99.1	43.9	7.3	51.2
Borrowings	(33.1)	(48.7)	(81.8)	26.2	(52.1)	(25.9)
Interest expense	115.2	(97.9)	17.3	70.1	(44.8)	25.3
Net finance revenue	$330.6	$(61.0)	$269.6	$200.9	$(168.1)	$32.8
Loans U.S. and Non U.S. (including held for sale and net of credit balances of factoring clients):						
U.S.	$418.5	$(66.9)	$351.6	$130.0	$(80.2)	$49.8
Non-U.S.	(109.6)	9.0	(100.6)	(76.9)	(8.2)	(85.1)

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

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

BACKGROUND

CIT Group Inc., together with its subsidiaries (collectively we , our , CIT or the Company), has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle market companies in a wide variety of industries primarily in North America, and equipment financing and leasing solutions to the transportation industry worldwide. We had nearly $60 billion of earning assets at December 31, 2015. CIT became a bank holding company (BHC) in December 2008 and a financial holding company (FHC) in July 2013. Through its bank subsidiary, CIT Bank, N.A., CIT provides a full range of banking and related services to commercial and individual customers through 70 branches located in southern California, through its online banking, and through other offices in the U.S. and internationally.

Effective as of August 3, 2015, CIT Group Inc. (CIT) acquired IMB HoldCo LLC (IMB), the parent company of OneWest Bank, National Association, a national bank (OneWest Bank). Upon acquisition, CIT Bank, a Utah-state chartered bank and a wholly owned subsidiary of CIT, merged with and into OneWest Bank (the OneWest Transaction), with OneWest Bank surviving as a wholly owned subsidiary of CIT with the name CIT Bank, National Association (CIT Bank, N.A.). The acquisition improves CIT s competitive position in the financial services industry while advancing our commercial banking model.

CIT paid approximately $3.4 billion as consideration for the OneWest Transaction (which includes agreed-upon adjustments for transaction expenses incurred by OneWest Bank prior to closing and retention awards made to OneWest Bank employees), comprised of approximately $1.9 billion in cash proceeds, approximately 30.9 million shares of CIT Group Inc. common stock (valued at approximately $1.5 billion at the time of closing), and approximately 168,000 restricted stock units of CIT (valued at approximately $8 million at the time of closing). Total consideration also included $116 million of cash retained by CIT as a holdback for certain potential liabilities relating to IMB and $2 million of cash for expenses of the holders representative. See *Note 2 Acquisition and Disposition Activities* in *Item 8. Financial Statements and Supplementary Data* for additional information and *OneWest Transaction* following this section for information on certain acquired assets and liabilities.

CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank, N.A. is regulated by the Office of the Comptroller of the Currency, U.S. Department of the Treasury (OCC). Prior to the OneWest Transaction, CIT Bank was regulated by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI).

The consolidated financial statements include the effects of Purchase Accounting Adjustments (PAA) upon completion of the OneWest Transaction, as required by U.S. GAAP. As such, assets acquired, liabilities assumed and consideration exchanged were recorded at their estimated fair value on the acquisition date. No allowance for loan losses was carried over nor created at acquisition. Consideration paid in excess of the net fair values of the acquired assets, intangible assets and assumed liabilities was recorded as Goodwill. Accretion and amortization of certain PAA are included in the consolidated Statements of Income, primarily impacting Net Finance Revenue (Interest income and interest expense) and Non-interest expenses. The purchase accounting accretion and amortization on loans, borrowings and deposits is recorded in interest income and interest expense over the weighted-average life of the financial instruments using the effective yield method. Accretion for purchased credit impaired (PCI) loans includes cash recoveries received in excess of the recorded investment. Intangible assets related to the OneWest Transaction were recorded related to the valuation of core deposits, customer relationships, trade names and other intangible assets. Intangible assets have finite lives, and as detailed in *Note 2 Acquisition and Disposition Activities* and *Note 26 Goodwill and Intangible Assets* in *Item 8. Financial Statements and Supplementary Data*, are amortized on an accelerated or straight-line basis, as appropriate, over the estimated useful lives and recorded in Non-interest expense.

Management s Discussion and Analysis of Financial Condition and Results of Operations and *Quantitative and Qualitative Disclosures about Market Risk* contain financial terms that are relevant to our business and a *Glossary* of key terms has been updated and is included later in this document. Management uses certain non-GAAP financial measures in its analysis of the financial condition and results of operations of the Company. See *Non-GAAP Financial Measurements* for a reconciliation of these financial measures to comparable financial measures based on U.S. GAAP.

2015 ACCOMPLISHMENTS AND FINANCIAL OVERVIEW

SUMMARY OF 2015 ACCOMPLISHMENTS

During 2015, we were focused on continuing to create long term value for shareholders. Specific business objectives established for 2015 and accomplishments included:

1. Expand Our Commercial Banking Franchise We are integrating our existing banking operations with those of OneWest Bank, and will grow the combined operations.

- The OneWest Bank acquisition added 70 retail branches in Southern California and over $20 billion of assets and $14 billion of deposits.

- OneWest Bank enhanced our products and service offerings by adding consumer banking, private banking, and corporate cash management, and additional deposit products and capabilities.

- CIT Bank, N.A. funded most of our U.S. lending and leasing volume.

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

- The allowance for loan losses was $360 million (1.14% of finance receivables, 1.35% excluding loans subject to loss sharing agreements with the FDIC) at December 31, 2015, compared to $346 million (1.78%) at December 31, 2014. The decline in the percentage of allowance to finance receivables reflects the OneWest Bank acquisition, which added $13.6 billion of loans at fair value with no related allowance at the time of acquisition. See further discussion in *Credit Metrics*.

- We maintained stable liquidity, with cash, investments, and the unused portion of the revolving credit facility representing 16% of assets.

- Our capital ratios remained strong, with our Common Equity Tier 1 (CET 1) Ratio at 12.7%, which exceeds the minimum requirement under the fully phased-in Basel III requirements.

- We integrated the OneWest Bank risk management teams, policies and procedures, and platforms, and continue strengthening the combined organizations ability to meet the enhanced prudential standards applicable to SIFIs.

3. Grow Business Franchises We will concentrate our growth on building franchises that meet or exceed our risk adjusted return hurdles and improve profitability by exiting non-strategic portfolios, including financing portfolios

in Canada and China.

- Financing and leasing assets increased significantly, reflecting the acquisition of OneWest Bank. Absent the acquisition, FLA grew reflecting continued expansion of both our transportation assets in TIF and loans in NAB.

- We made good progress exiting, our remaining non-strategic businesses; we sold the Mexico and Brazil businesses in 2015, we transferred our China and Canada businesses to AHFS and sold the U.K. portfolio on January 1, 2016.

4. Realize embedded value We will focus on enhancing our economic returns by:

- Utilizing our U.S. net operating loss carry-forward (NOLs), thereby reducing the net deferred tax asset and increasing regulatory capital. While the NOL usage was small during the year, the OneWest Bank acquisition is expected to accelerate the NOL utilization, which led to the reversal of a $647 million valuation allowance against our deferred tax asset in the third quarter.

- Combined cash and investment portfolio is positioned to benefit from increased interest rates.

- Additional actions to optimize the Bank Holding Company include: transferring additional U.S.-based business platforms into the bank, improving the efficiency of our secured debt facilities, generating incremental cash at the BHC to pay down high cost debt and/or return capital to shareholders and optimizing existing portfolios, including exploring strategic alternatives for the Commercial Aerospace business and sales of the businesses in Canada and China.

5. Return Excess Capital We plan to prudently return capital to our shareholders through share repurchases and dividends, while maintaining strong capital ratios.

- We completed purchasing shares under the most recent repurchase program. We repurchased 11.6 million of our shares at an average price of $45.70 for an aggregate purchase price of $532 million during 2015.

- We declared and paid $115 million of dividends during 2015.

- Regulatory capital ratios remain well above required levels on a fully phased-in Basel III basis.

SUMMARY OF 2015 FINANCIAL RESULTS

As discussed below, our 2015 results reflected increased business activity, which was driven by the inclusion of five months of OneWest Bank activity. The expected benefits from the acquisition, which include lower funding costs, and the reversal of the valuation allowance on the U.S. federal tax asset were offset by headwinds we faced, which took the form of margin pressure, lower other income, higher credit costs and increased operating expenses. The low interest rate environment continued to pressure yields on new business. Although we successfully completed the sales of the remaining financing and leasing assets in the NSP segment, other income was down, primarily driven by currency translation losses recognized on the sale of businesses. Credit costs increased, reflecting the higher reserves required for certain industry exposures, along with higher provisioning resulting from purchase accounting. Operating expenses were high, as they included transaction costs for the OneWest Bank acquisition, along with costs for integration such as systems and the restructuring of management. As a result, net income was down from 2014. We also announced certain strategic initiatives that impacted 2015 results, such as our intention to sell our financing portfolios in Canada and China, and the exploration of strategic alternatives for our commercial aerospace business.

Net income for 2015 totaled $1,057 million, $5.67 per diluted share, compared to $1,130 million, $5.96 per diluted share for 2014 and $676 million, $3.35 per diluted share for 2013. Income from continuing operations (after taxes) for

2015 totaled $1,067 million, $5.72 per diluted share, compared to $1,078 million, $5.69 per diluted share for 2014 and $644 million, $3.19 per diluted share for 2013.

Income from continuing operations for 2015 included five months of results from OneWest Bank and a $647 million, $3.47 per diluted share, discrete income tax item resulting from the reversal of the valuation allowance on the U.S. federal deferred tax asset. Net income for 2014 included $419 million, $2.21 per diluted share, of income tax benefits associated with partial reversals of valuation allowances on certain domestic and international deferred tax assets.

Income from continuing operations, before provision for income taxes totaled $579 million for 2015, down from $681 million for 2014 and $734 million for 2013. Pre-tax income for 2015 reflected yield compression in certain sectors, higher credit costs, and higher operating expenses, which more than offset the incremental contribution from a higher level of earning assets, driven by the OneWest Bank acquisition.

Net finance revenue[(1)] (NFR) was $1.7 billion in 2015, up from $1.4 billion in 2014 and $1.4 billion in 2013, on higher average earning assets (AEA[(1)]).Growth in AEA and lower funding costs increased

(1) Net finance revenue and average earning assets are non-GAAP measures; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.

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NFR in 2015, 2014 and 2013. AEA was $48.7 billion in 2015, up from $40.7 billion in 2014 and from $37.6 billion in 2013. The acquisition of OneWest Bank resulted in higher revenues from the additional earning assets and lower funding costs, as OneWest Bank s funding consisted mostly of deposits, which have a lower interest rate.

Compared to the prior year, the slight increase in net operating lease revenue reflected revenue growth on higher assets, which was essentially offset by lower equipment utilization, higher depreciation and higher maintenance costs.

Provision for credit losses for 2015 was $161 million, up from $100 million last year and $65 million in 2013. The provision for credit losses reflected the reserve build on loan growth and an increase in the reserve resulting from the recognition of purchase accounting accretion on non-PCI loans. In addition, the provision was elevated due to increases in reserves related to the energy sector and, to a lesser extent, the maritime portfolios, as well as from the establishment of reserves on certain acquired non-credit impaired loans in the initial period post acquisition.

Credit metrics reflect the impact of the acquired portfolios, which, due to purchase accounting, did not have non-accrual loans or an Allowance for Loan Losses at the time of acquisition. Net charge-offs were $138 million (0.55%) in 2015 and included $73 million related to receivables transferred to assets held for sale. Excluding assets moved to held for sale, net charge-offs were $65 million, compared to $56 million in 2014 and $42 million in 2013. Recoveries of $28 million were unchanged from 2014 and down from $58 million in 2013. Non-accrual loans rose to $268 million (0.85% of finance receivables) at December 31, 2015 from $161 million (0.82%) a year ago and $241 million (1.29%) at December 31, 2013, driven mostly by an increase in the NAB energy portfolio.

Other income of $220 million decreased from $305 million in 2014 and $381 million in 2013, reflecting losses on portfolios sold, driven primarily by the realization of currency translation adjustment losses ($70 million) on the sales of the Brazil and Mexico businesses.

Operating expenses were $1,168 million, up from $942 million in 2014 and $970 million in 2013. In addition to higher costs associated with five months of activity from the OneWest Bank acquisition, the acquisition also resulted in higher professional fees and other integration related costs, increased other expenses, including higher FDIC insurance costs, and higher occupancy costs. Excluding restructuring costs and intangible asset amortization, operating expenses(2) were $1,097 million, $909 million and $933 million for 2015, 2014 and 2013, respectively. Restructuring costs mostly reflected streamlining of the Bank and Bank Holding Company senior management structure, while expenses associated with the amortization of intangibles were mainly the result of the OneWest Bank acquisition. 2013 expenses included a $50 million tax agreement settlement charge. Headcount at December 31, 2015, 2014 and 2013 was approximately 4,900, 3,360, and 3,240, respectively, with the current year increase reflecting the headcount associated with the OneWest Bank acquisition.

Provision for income taxes was a benefit of $488 million, primarily reflecting a $647 million reversal of the valuation allowance on the U.S. federal deferred tax asset. The effective tax rate excluding discrete items was 23%. Net cash taxes paid were $10 million, compared to $22 million in 2014 and $68 million in 2013. The 2014 provision for income taxes was a benefit of $398 million, mostly reflecting $375 million relating to a partial reversal of the U.S. Federal deferred tax asset valuation allowance. The provision for income taxes was $84 million for 2013, as described in *Income Taxes* section.

Total assets of continuing operations(3) at December 31, 2015 were $67.0 billion, up from $47.9 billion at December 31, 2014, and $43.3 billion at December 31, 2013, primarily reflecting the addition of assets acquired in the OneWest Transaction.

- *Financing and leasing assets* (FLA), which includes loans, operating lease equipment and assets held for sale (AHFS), increased to $50.4 billion, up from $35.6 billion at December 31, 2014 and $32.7 billion at December 31, 2013. In addition to FLA from the OneWest Bank acquisition of $13.6 billion, FLAs were up reflecting growth in both transportation assets and NAB.

- *Cash (cash and due from banks* and *interest bearing deposits)* totaled $8.3 billion, compared to $7.1 billion at December 31, 2014 and $6.0 billion at December 31, 2013, reflecting $4.4 billion of cash acquired in the OneWest Transaction, partially offset by the payment of $1.9 billion as consideration for the OneWest Transaction.

- *Investment securities* and *securities purchased under resale agreements* totaled $3.0 billion at December 31, 2015 compared to $2.2 billion at December 31, 2014, and $2.6 billion at December 31, 2013, reflecting $1.3 billion of investment securities, primarily comprised of MBS, acquired in the OneWest Transaction.

- *Goodwill and Intangible assets* increased due to the addition of $663 million and $165 million, respectively, related to the OneWest Bank acquisition.

- *Other assets* of $3.4 billion were up due primarily to the acquisition of OneWest Bank ($722 million of other assets acquired) and the reversal of the U.S. Federal deferred tax asset valuation allowance ($647 million). The components are included in *Note 8 Other Assets* in *Item 8. Financial Statements and Supplementary Data.*

Deposits increased to $32.8 billion at December 31, 2015 from $15.8 billion at December 31, 2014 and $12.5 billion at December 31, 2013, reflecting $14.5 billion acquired in the OneWest Transaction and continued solid growth of online banking. The proportion of funding by deposits has increased significantly with the OneWest Bank acquisition.

Borrowings were $18.5 billion at December 31, 2015, essentially unchanged from December 31, 2014 and 2013, reflecting the addition of $3.0 billion of FHLB advances in the OneWest Bank acquisition, offset by repayments and maturities.

Stockholders Equity increased to $11.0 billion at December 31, 2015 from $9.1 billion at December 31, 2014 and $8.9 billion at December 31, 2013, reflecting net income, along with the issuance of 30.9 million common shares (valued at $1.5 billion) related to the acquisition that had previously been held in treasury.

(2) Operating expenses excluding restructuring costs and intangible asset amortization is a non-GAAP measure; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.

(3) Total assets from continuing operations is a non-GAAP measure. See Non-GAAP Measurements for reconciliation of non-GAAP financial information.

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Capital ratios remain well above required levels. The acquisition of OneWest Bank increased equity, primarily due to the issuance of $1.5 billion in common shares and the reversal of the valuation allowance on our Federal deferred tax asset. Tangible common equity reflects the increase in equity net of the increase in goodwill and intangibles resulting from the acquisition. Regulatory capital increased in 2015. While the reversal of the deferred tax asset valuation allowance benefited stockholders equity, it had minimal impact on regulatory capital as the majority of the deferred tax asset balance was disallowed for regulatory capital purposes. As a result, capital ratios declined modestly, as the benefit from the increase in regulatory capital was more than offset by the increase in the risk-weighted assets acquired.

2016 PRIORITIES

In continuing our transition to a national middle-market bank, our 2016 priorities include:

1. Determine and execute on Strategic Alternatives for our Commercial Air business Maximize value for shareholders by executing on strategic alternatives for the Commercial Air business.

2. Improve Return on Tangible Common Equity Complete the sales of our China and Canada businesses. Complete the strategic review of our businesses with the objective of improving returns to drive value for stakeholders, the details of which we expect to communicate by the end of the first quarter.

3. Maintain strong risk management practices We will continue to maintain strong risk management practices to ensure appropriate risk adjusted returns through the business cycle for both our lending and operating lease businesses.

PERFORMANCE MEASUREMENTS

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

KEY PERFORMANCE METRICS	**MEASUREMENTS**
Asset Generation to originate new business and grow earning assets.	-New business volumes; and -Earning asset balances.
Revenue Generation lend money at rates in excess of borrowing costs and consistent with risk profile of obligor, earn rentals on the equipment we lease commensurate with the risk, and generate other revenue streams.	-Net finance revenue and other income; -Net finance margin and Operating lease revenue as a percentage of average operating lease equipment; and -Asset yields and funding costs.
Credit Risk Management accurately evaluate credit worthiness of customers, maintain high-quality assets and balance income potential with loss expectations.	-Net charge-offs, amounts and as a percentage of AFR; -Non-accrual loans, balances and as a percentage of loans; -Classified assets and delinquencies balances; and -Loan loss reserve, balance and as a percentage of loans.
Equipment and Residual Risk Management appropriately evaluate collateral risk in leasing transactions and remarket or sell equipment at lease termination.	-Equipment utilization; -Market value of equipment relative to book value; and -Gains and losses on equipment sales.
Expense Management maintain efficient operating platforms and related infrastructure.	-SG&A expenses and trends; -SG&A expenses as a percentage of AEA; and -Net efficiency

		ratio.
Profitability	generate income and appropriate returns to shareholders.	-Net income per common share (EPS); -Net income and pre-tax income, each as a percentage of average earning assets (ROA); and -Pre-tax income as a percentage of average tangible common stockholders equity (ROTCE).
Capital Management	maintain a strong capital position, while deploying excess capital.	-Common equity tier 1, Tier 1 and Total capital ratios; and -Tier 1 capital as a percentage of adjusted average assets; (Tier 1 Leverage Ratio).
Liquidity Management	maintain access to ample funding at competitive rates to meet obligations as they come due.	-Levels of high quality liquid assets and as a % of total assets; -Committed and available funding facilities; -Debt maturity profile and ratings; -Funding mix; and -Deposit generation.
Manage Market Risk	measure and manage risk to income statement and economic value of enterprise due to movements in interest and foreign currency exchange rates.	-Net Interest Income Sensitivity; and -Economic Value of Equity (EVE).

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ONEWEST TRANSACTION

The following discussion summarizes certain assets and liabilities acquired in the OneWest Transaction. In accordance with purchase accounting, all assets acquired and liabilities assumed were recorded at their fair value. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. Certain purchase accounting adjustments are accreted or amortized into income and expenses. No allowance for loan losses was carried over and no allowance was created at acquisition. The determination of estimated fair values required management to make certain estimates about discount rates, future expected cash flows (that may reflect collateral values), market conditions and other future events that are highly subjective in nature and may require adjustments, which can be updated throughout the year following the acquisition (the Measurement Period). Subsequent to the acquisition, management continued to review information relating to events or circumstances existing at the acquisition date. This review resulted in adjustments to the acquisition date valuation amounts, which increased the goodwill balance as previously reported in the Company's February 2, 2016 earnings release. Subsequent to issuing its earnings release, the Company made additional adjustments that increased the goodwill balance further to $663 million, including an increase in goodwill of $13 million, an increase in other assets of $8 million, and a decrease in intangible assets of $21 million as of December 31, 2015. The additional adjustments had no impact on the Statement of Income.

See Note 2 Acquisition and Disposition Activities in Item 8. Financial Statements and Supplementary Data for assumptions used to value assets and liabilities.

Consideration and Net Assets Acquired (dollars in millions)

	Original Purchase Price	Measurement Period Adjustments	Adjusted Purchase Price
Purchase Price	$3,391.6	$	$3,391.6
Recognized amounts of identifiable assets acquired and (liabilities assumed), at fair value			
Cash and interest bearing deposits	$4,411.6	$	$4,411.6
Investment securities	1,297.3		1,297.3
Assets held for sale	20.4		20.4
Loans HFI	13,598.3	(32.7)	13,565.6
Indemnification assets	480.7	(25.3)	455.4
Other assets	676.6	45.7	722.3
Assets of discontinued operations	524.4		524.4
Deposits	(14,533.3)		(14,533.3)
Borrowings	(2,970.3)		(2,970.3)
Other liabilities	(221.1)		(221.1)
Liabilities of discontinued operations	(676.9)	(31.5)	(708.4)
Total fair value of identifiable net assets	$2,607.7	$ (43.8)	$2,563.9
Intangible assets	$185.9	$(21.2)	$164.7
Goodwill	$598.0	$65.0	$663.0

Loans

The acquired commercial loans included commercial real estate loans secured by multi-family properties, both owner-occupied and non-owner occupied commercial real estate, and commercial and industrial loans. Commercial loans were principally to middle market businesses and included equipment loans, working capital lines of credit, asset-backed loans, acquisition finance credit facilities, and small business administration product offerings, mostly 504 loans. The commercial loans are included in divisions within the NAB segment, including Commercial Banking and Commercial Real Estate.

OneWest Bank had both originated and purchased consumer loans. The acquired consumer loan portfolio that was originated by OneWest Bank was comprised mainly of jumbo residential mortgage loans and conforming residential mortgage loans. These loans had terms ranging from 10 to 30 years, were either fixed or adjustable interest rates, and were mostly to customers in California. In addition, these mortgage loans are primarily closed-end first lien loans for the purchase or re-finance of owner occupied properties, and are included in the Consumer Banking division of the NAB segment. The consumer loans that were previously purchased by OneWest Bank from the FDIC, most of which the FDIC has provided indemnification against certain losses, are referred to as Covered Loans (see Indemnification Assets below), are maintained in the LCM segment and consist of SFR loans and reverse mortgage loans.

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The following table reflects the carrying values and UPB of financing and leasing assets acquired at the acquisition date, August 3, 2015:

Financing and Leasing Assets Balances at Acquisition Date (dollars in millions)

	Original Purchase Price			Measurement Period Adjustments	Adjusted Purchase Price		
	Carrying Value (CV)	Unpaid Principal Balance (UPB)	CV as a % of UPB	CV	CV	UPB	CV as a % of UPB
North America Banking *Segment Total*							
Loans	$7,871.3	$8,324.5	94.6 %	$(17.0)	$7,854.3	$8,324.5	94.4 %
Assets held for sale	6.3	6.3	100.0%		6.3	6.3	100.0%
Financing and leasing assets	7,877.6	8,330.8	94.6 %	(17.0)	7,860.6	8,330.8	94.4 %
Commercial Banking							
Loans	$3,377.0	$3,610.1	93.5 %	$(12.9)	$3,364.1	$3,610.1	93.2 %

	Original Purchase Price			Measurement Period Adjustments	Adjusted Purchase Price		
Assets held for sale	0.5	0.5	100.0%		0.5	0.5	100.0%
Financing and leasing assets	3,377.5	3,610.6	93.5 %	(12.9)	3,364.6	3,610.6	93.2 %
Commercial Real Estate							
Loans	$3,130.3	$3,350.2	93.4 %	$	$3,130.3	$3,350.2	93.4 %
Financing and leasing assets	3,130.3	3,350.2	93.4 %		3,130.3	3,350.2	93.4 %
Consumer Banking							
Loans	$1,364.0	$1,364.2	100.0%	$(4.1)	$1,359.9	$1,364.2	99.7 %
Assets held for sale	5.8	5.8	100.0%		5.8	5.8	100.0%
Financing and leasing assets	1,369.8	1,370.0	100.0%	(4.1)	1,365.7	1,370.0	99.7 %
Legacy Consumer Mortgages[1]							
Segment Total							
Loans	$5,727.0	$7,426.0	77.1 %	$(15.7)	$5,711.3	$7,426.0	76.9 %
Assets held for sale	14.1	14.1	100.0%		14.1	14.1	100.0%
Financing and leasing assets	5,741.1	7,440.1	77.2 %	(15.7)	5,725.4	7,440.1	77.0 %
Single Family Residential Mortgages							
Loans	$4,834.3	$6,199.7	78.0 %	$(15.7)	$4,818.6	$6,199.7	77.7 %
Financing and leasing assets	4,834.3	6,199.7	78.0 %	(15.7)	4,818.6	6,199.7	77.7 %
Reverse Mortgages[2]							
Loans	$892.7	$1,226.3	72.8 %	$	$892.7	$1,226.3	72.8 %
Assets held for sale	14.1	14.1	100.0%		14.1	14.1	100.0%
Financing and leasing assets	906.8	1,240.4	73.1 %		906.8	1,240.4	73.1 %
Total	$13,618.7	$15,770.9	86.4 %	$ (32.7)	$13,586.0	$15,770.9	86.1 %

(1) *Includes $5.1 billion of covered loans.*

(2) *Includes Jumbo reverse mortgages, as well as approximately $82 million of HECM reverse mortgages.*

Covered Loans of approximately $5.1 billion are loans that were acquired by OneWest Bank from the FDIC for which CIT may be reimbursed for a portion of future losses under the terms of loss sharing agreements with the FDIC. Our exposure to losses related to Covered Loans is mitigated by the Loss Sharing Agreements and by the fact that those loans were recorded at fair value at acquisition. The Consumer Covered Loans are included in the LCM segment.

Non-Covered Loans of approximately $8.5 billion included loans that were either acquired or originated by OneWest Bank and were not subject to a loss sharing agreement. Both the Covered Loans and Non-Covered Loans have been accounted for either as purchased credit impaired (PCI) loans or Non-PCI loans.

Loans acquired as part of the OneWest Transaction were recorded at fair value. No separate allowance was carried over or created at acquisition. Fair values were determined by discounting both principal and interest cash flows expected to be collected using a market discount rate for similar instruments with adjustments that management believes a market participant would consider in determining fair value. Cash flows expected to be collected as of the acquisition date were estimated using internal models and third party data that incorporate manage-

ment s best estimate of key assumptions, such as default rates, loss severity, prepayment speeds, and timing of disposition upon default. Loans with evidence of credit quality deterioration since origination and for which it was probable at purchase that CIT would be unable to collect all contractually required payments (principal and interest) were considered PCI.

As a result of the purchase accounting adjustments for the acquired loan balances, CIT recorded a discount to UPB of approximately $2,200.5 million (Total UPB Discount). This discount is comprised of two components as follows: 1) the Incremental Yield Discount , which are amounts expected to result in $1,261.4 million of additional yield income above the contractual coupon, and 2) the Principal Loss Discount , which are amounts relating to the unpaid principal balance at acquisition of $939.1 million which will be utilized to offset the loss of principal on PCI loans.

As of December 31, 2015, the remaining Incremental Yield Discount and Principal Loss Discount were approximately $1,260.1 million and $757.5 million, respectively. The Incremental Yield Discount will primarily be reflected, along with the underlying contractual yield, in interest income, and will cause the Total UPB Discount to decline as it accretes into income. In addition, the Total UPB Discount will also decline as a result of asset sales, transfers to held for sale, and loans charged off.

The accretion of these discounts resulted in additional recorded interest income on loans. See Net Finance Revenue section for the accretion of these discounts for the year ended December 31, 2015.

As of the acquisition date, loans were classified as PCI or non-PCI with corresponding fair values as follows:

OneWest Bank Purchased Loan Portfolio at Acquisition Date (dollars in millions)

	PCI Loans	Non-PCI Loans

Original Purchase Price	PCI Loans Fair Value	PCI Loans Unpaid Principal Balance	Non-PCI Loans Fair Value	Non-PCI Loans Unpaid Principal Balance	Total Fair Value	Total Unpaid Principal Balance
Commercial Banking	$101.3	$149.2	$3,275.7	$3,460.9	$3,377.0	$3,610.1
Commercial Real Estate	112.0	191.5	3,018.3	3,158.7	3,130.3	3,350.2
Consumer Banking			1,364.0	1,364.2	1,364.0	1,364.2
Single Family Residential Mortgages	2,626.2	3,830.0	2,208.1	2,369.7	4,834.3	6,199.7
Reverse Mortgages	77.8	92.6	814.9	1,133.7	892.7	1,226.3
Total	$2,917.3	$4,263.3	$10,681.0	$11,487.2	$13,598.3	$15,750.5
Measurement Period Adjustments						
Commercial Banking	$(15.3)	$(15.0)	$2.4	$15.0	$(12.9)	$
Consumer Banking			(4.1)		(4.1)	
Single Family Residential Mortgages	(15.7)				(15.7)	
Total	$(31.0)	$(15.0)	$(1.7)	$15.0	$(32.7)	$
Adjusted Purchase Price						
Commercial Banking	$86.0	$134.2	$3,278.1	$3,475.9	$3,364.1	$3,610.1
Commercial Real Estate	112.0	191.5	3,018.3	3,158.7	3,130.3	3,350.2
Consumer Banking			1,359.9	1,364.2	1,359.9	1,364.2
Single Family Residential Mortgages	2,610.5	3,830.0	2,208.1	2,369.7	4,818.6	6,199.7
Reverse Mortgages	77.8	92.6	814.9	1,133.7	892.7	1,226.3
Total	$2,886.3	$4,248.3	$10,679.3	$11,502.2	$13,565.6	$15,750.5

The difference between the acquisition date fair value and the unpaid principal balance for non-PCI loans represents the fair value adjustment for a loan and includes both credit and interest rate considerations. Fair value adjustments may be discounts (or premiums) to a loan s cost basis and are accreted (or amortized) to interest and fees on loans over the loan s remaining life.

The acquired loans are discussed in detail elsewhere in this filing. See *Note 1 Business and Summary of Significant Accounting Policies*, *Note 2 Acquisition and Disposition Activities*, *Note 3 Loans* and *Note 13 Fair Value* in *Item 8. Financial Statements and Supplementary Data*.

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Indemnification Assets

Indemnification assets totaled $455 million as of the acquisition date, including the effects of the measurement period adjustments. As part of the OneWest Transaction, CIT is party to the loss sharing agreements with the FDIC related to

OneWest Bank s previous acquisitions of IndyMac Federal Bank, FSB, First Federal Bank of California, FSB and La Jolla Bank, FSB. The loss sharing agreements generally require CIT Bank, N.A. to obtain FDIC approval prior to transferring or selling loans and related indemnification assets. Eligible losses are submitted to the FDIC for reimbursement when a qualifying loss event occurs (e.g., charge-off of loan balance or liquidation of collateral).

The acquired indemnification assets are discussed in detail elsewhere in this filing. See *Note 1 Business and Summary of Significant Accounting Policies*, *Note 2 Acquisition and Disposition Activities* and *Note 5 Indemnification Assets* in *Item 8. Financial Statements and Supplementary Data.*

Investment Securities

In connection with the OneWest acquisition, the Company acquired securities, mostly comprised of mortgage-backed securities (MBS) valued at approximately $1.3 billion as of the acquisition date. Approximately $1.0 billion of the MBS securities were classified as PCI as of the acquisition date due to evidence of credit deterioration since issuance and for which it was probable that the Company would not collect all principal and interest payments that were contractually required at the time of purchase. These securities were initially classified as available-for-sale upon acquisition; however, upon further review following the filing of the Company s September 30, 2015 Form 10-Q, management determined that $373.4 million of these securities should have been classified as securities carried at fair value with changes recorded in net income as of the acquisition date, and in the fourth quarter of 2015 management corrected this immaterial error impacting classification of investment securities.

The acquired investments are discussed in detail elsewhere in this filing. See *Note 1 Business and Summary of Significant Accounting Policies* and *Note 7 Investment Securities in Item 8. Financial Statements and Supplementary Data.*

Cash

Cash acquired in the OneWest Transaction totaled $4,411.6 million as of the acquisition date.

Goodwill

The amount of goodwill recorded, $663.0 million, represents the excess of the purchase price over the estimated fair value of the net assets acquired by CIT, including the affects of the measurement period adjustments. The goodwill was assigned to the NAB and LCM segments. As the LCM segment is currently running off, we expect that the goodwill balance will become impaired and that we will begin writing off the goodwill as the cash flows generated by the segment decreases. The acquired goodwill is discussed in detail elsewhere in this filing. See *Note 26 Goodwill and Intangible Assets* in *Item 8. Financial Statements and Supplementary Data* for further detail.

Intangible Assets

We recorded intangible assets of $164.7 million, including the effects of the measurement period adjustments, related mainly to the valuation of core deposits, customer relationships and trade names recorded in conjunction with the acquisition, which will be amortized on a straight line basis, except for trade names, which are amortized on an accelerated basis, over the respective life of the underlying intangible asset of up to 10 years. The acquired intangible assets are discussed in detail elsewhere in this filing. See *Note 26 Goodwill and Intangible Assets* in *Item 8. Financial Statements and Supplementary Data.* Also see *Non-Interest Expenses* section.

Other Assets

Other assets acquired in the OneWest Transaction consisted of the following as of the acquisition date, including the effects of the measurement period adjustments:

Acquired Other Assets (dollars in millions)

	August 3, 2015
Federal and state tax assets	$170.7
Investment tax credits	134.5
Other real estate owned	132.4
Property, furniture and fixtures	61.4
FDIC receivable	54.8
Other	168.5
Total other assets	$ 722.3

The acquired other assets are discussed in detail elsewhere in this filing. See *Note 1 Business and Summary of Significant Accounting Policies* in *Item 8. Financial Statements and Supplementary Data.*

Deposits

Deposits acquired in the OneWest Transaction consisted of the following as of the acquisition date:

Acquired Deposits at August 3, 2015 (dollars in millions)

	Balance	Rate
Noninterest-bearing checking	$898.7	N/A
Interest-bearing checking	3,131.8	0.51 %
Money market accounts	3,523.1	0.61 %
Savings	698.7	0.48 %
Other	75.3	N/A
Total checking and savings deposits	8,327.6	0.49 %
Certificates of deposit	6,205.7	0.96 %
Total deposits	$14,533.3	0.69 %

The premium on deposits totaled $29.0 million at the acquisition date.

Borrowings

Outstanding borrowings of $2,970.3 million were acquired in the OneWest Transaction as of the acquisition date, primarily consisting of FHLB advances. Management expects continued use of FHLB advances as a source of short and long-term funding. The premium on borrowings totaled $6.8 million at the acquisition date.

SEGMENT UPDATES

In conjunction with the OneWest Bank acquisition, we updated our segments as previously reported in our Report on Form 10-Q for the quarter ended September 30, 2015.

Operations of the acquired OneWest Bank are included with the activities within the North America Banking (NAB) segment (previously North American Commercial Finance) and in a new segment, Legacy Consumer Mortgages (LCM). The activities of OneWest Bank are included in the Commercial Real Estate, Commercial Banking and Consumer Banking divisions of NAB. We also created a new segment, LCM, which includes single-family residential mortgage (SFR) loans and reverse mortgage loans that were acquired from OneWest Bank. Certain of the LCM loans are subject to loss sharing agreements with the FDIC, under which CIT may be reimbursed for a portion of future losses.

Segment Name	Divisions	Changes Due to OneWest Transaction
Transportation & International Finance	Aerospace, Rail, Maritime Finance and International Finance	No change due to the acquisition
North America Banking		Former name North American Commercial Finance
	Commercial Services	No change due to the acquisition
	Commercial Banking	New name, includes the former Corporate Finance and the commercial lending functions of OneWest Bank. The division also originates qualified Small Business Administration (SBA) loans.
	Commercial Real Estate	Former name Real Estate Finance and includes commercial real estate assets and operations from the acquisition, and a run-off portfolio of multi-family mortgage loans.
	Consumer Banking	New division includes a full suite of consumer deposit products and SFR loans offered through retail branches, private bankers, and an online direct channel.
	Equipment Finance	No change due to the acquisition
Legacy Consumer Mortgages	Single Family Residential Mortgages, Reverse Mortgages	New segment contains SFR loans and reverse mortgage loans, most of which are covered by loss sharing agreements with the FDIC.
Non-Strategic Portfolios		No change due to the acquisition
Corporate and Other		Includes investments and other unallocated items, such as certain amortization of intangible assets.

With the announced changes to CIT management, along with the Company s exploration of alternatives for the commercial aerospace business, we will further refine our segment reporting effective January 1, 2016.

See *Note 25 Business Segment Information* in *Item 8. Financial Statements and Supplementary Data* for additional information relating to the 2015 reorganization.

DISCONTINUED OPERATIONS

Reverse Mortgage Servicing

The Financial Freedom business, a division of CIT Bank (formerly a division of OneWest Bank) that services reverse mortgage loans, was acquired in conjunction with the OneWest Transaction. Pursuant to ASC 205-20, as amended by ASU 2014-08, the Financial Freedom business is reflected as discontinued operations as of the August 3, 2015 acquisition date and as of December 31, 2015. The business includes the entire third party servicing of reverse mortgage operations, which consist of personnel, systems and servicing assets. The assets of discontinued operations primarily include Home Equity Conversion Mortgage (HECM) loans of approximately $450 million at December 31, 2015, and servicing advances. The liabilities of discontinued operations include reverse mortgage servicing liabilities, which relates primarily to loans serviced for Fannie Mae, secured borrowings and

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contingent liabilities. In addition, continuing operations includes a portfolio of reverse mortgages of $917 million at December 31, 2015, which are in the LCM segment and are serviced by Financial Freedom.

Student Lending

On April 25, 2014, the Company completed the sale of the student lending business, along with certain secured debt and servicing rights. As a result, the student lending business is reported as a discontinued operation for the year ended December 31, 2014.

Further details of the discontinued businesses, along with condensed balance sheet and income statement items are included in *Note 2 Acquisition and Disposition Activities* in *Item 8. Financial Statements and Supplementary Data*. See also *Note 22 Contingencies* for discussion related to the servicing business.

Unless specifically noted, the discussions and data presented throughout the following sections reflect CIT balances on a continuing operations basis.

NET FINANCE REVENUE

The following tables present management s view of consolidated NFR. As discussed below, NFR was impacted by the inclusion of OneWest Bank activity for five months during 2015.

Net Finance Revenue[(1)] (dollars in millions)

	Years Ended December 31,		
	2015	**2014**	**2013**
Interest income	$1,512.9	$1,226.5	$1,255.2
Rental income on operating leases	2,152.5	2,093.0	1,897.4
Finance revenue	3,665.4	3,319.5	3,152.6
Interest expense	(1,103.5)	(1,086.2)	(1,060.9)
Depreciation on operating lease equipment	(640.5)	(615.7)	(540.6)
Maintenance and other operating lease expenses	(231.0)	(196.8)	(163.1)
Net finance revenue	$1,690.4	$1,420.8	$1,388.0

	Years Ended December 31,		
Average Earning Assets[(2)] (AEA)	$48,720.3	$40,692.6	$37,636.0
Net finance margin	3.47 %	3.49 %	3.69 %

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

(2) *As noted below, AEA components have changed in the current year. All prior periods have been conformed to the current presentation. AEA balances in this table include credit balances of factoring clients, and therefore are less than balances in a similar table in Select Data .*

NFR and NFM are key metrics used by management to measure the profitability of our earning assets. NFR includes interest and yield-related fee income on our loans and capital leases, rental income on our operating lease equipment, and interest and dividend income on cash and investments, less funding costs and depreciation, maintenance and other operating lease expenses from our operating lease equipment. Since our asset composition includes a high level of operating lease equipment (31% of AEA for the year ended December 31, 2015), NFM is a more appropriate metric for CIT than net interest margin (NIM) (a common metric used by other BHCs), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less depreciation, maintenance and other operating lease expenses) from operating leases.

In conjunction with the OneWest Transaction, we changed our approach of measuring our margin to include other revenue generating assets in AEA, such as interest-earning cash deposits, investments, and the newly acquired indemnification assets. These additional balances have grown in significance, or are new due to the acquisition, and are now included in our determination of AEA. Prior period balances and percentages have been updated to conform to the current period presentation. See the *Glossary* at the end of *Item 1. Business Overview* in this document.

The following table includes average balances from revenue generating assets along with the respective revenues and average balances of deposits and borrowings with the respective interest expenses.

Annual Average Balances[(1)] **and Associated Income** (dollars in millions)

	December 31, 2015			December 31, 2014			Dece
	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance	Revenue / Expense	Average Rate (%)	Average Balance
Interest bearing deposits	$5,841.3	$17.2	0.29 %	$5,343.0	$17.7	0.33%	$5,531.6
Securities purchased under	411.5	2.3	0.56 %	242.3	1.3	0.54%	

	December 31, 2015			December 31, 2014			Dece
agreements to resell							
Investment securities	2,239.2	51.9	2.32 %	1,667.8	16.5	0.99%	1,886.0
Loans (including held for sale and credit balances of factoring clients)(2)(3)	24,524.2	1,442.0	5.88 %	18,659.6	1,191.0	6.38%	17,483.0
Operating lease equipment, net (including held for sale)(4)	15,514.6	1,281.0	8.26 %	14,777.3	1,280.5	8.67%	12,756.1
Indemnification assets	189.5	(0.5)	(0.26)%				
Average earning assets(2)	$48,720.3	2,793.9	5.73 %	$40,690.0	2,507.0	6.16%	$37,656.7
Deposits	$22,891.4	$330.1	1.44 %	$13,955.8	$231.0	1.66%	$11,212.1
Borrowings(5)	17,863.0	773.4	4.33 %	18,582.0	855.2	4.60%	18,044.5
Total interest-bearing liabilities	$40,754.4	1,103.5	2.71 %	$32,537.8	1,086.2	3.34%	$29,256.6
NFR and NFM		$1,690.4	3.47 %		$1,420.8	3.49%	

	2015 Over 2014 Comparison			2014 Over 2013 Comparison		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	Rate	Net	Volume	Rate	Net
Interest bearing deposits	$1.6	$(2.1)	$(0.5)	$(0.6)	$1.7	$1.1
Securities purchased under agreements to resell	0.9	0.1	1.0	1.3		1.3
Investments	5.7	29.7	35.4	(1.4)	5.6	4.2
Loans (including held for sale and net of credit balances of factoring clients)(2)(3)	374.2	(123.2)	251.0	82.5	(117.8)	(35.3)
Operating lease equipment, net (including held for sale)(4)	63.9	(63.4)	0.5	189.2	(102.4)	86.8
Indemnification assets	(0.5)		(0.5)			
Total earning assets	$445.8	$(158.9)	$286.9	$271.0	$(212.9)	$58.1
Deposits	$148.3	$(49.2)	$99.1	$43.9	$7.3	$51.2
Borrowings(5)	(33.1)	(48.7)	(81.8)	26.2	(52.1)	(25.9)
Total interest-bearing liabilities	$115.2	$(97.9)	$17.3	$70.1	$(44.8)	$25.3

(1) *Average rates are impacted by PAA and FSA accretion and amortization.*

(2) *The balance and rate presented is calculated net of average credit balances for factoring clients.*

(3) *Non-accrual loans and related income are included in the respective categories.*

(4) *Operating lease rental income is a significant source of revenue; therefore, we have presented the rental revenues net of depreciation and net of maintenance and other operating lease expenses.*

(5) *Interest and average rates include FSA accretion, including amounts accelerated due to redemptions or extinguishments, and accelerated original issue discount on debt extinguishment related to the GSI facility.*

Average earning assets increased 20% from 2014, principally from the OneWest Bank acquisition. The acquired earning assets totaled approximately $19 billion on August 3, 2015, the acquisition date. Absent the acquisition, average earning assets declined reflecting asset sales and portfolio collections. Revenues generated by the acquired assets for the five months that they were owned, and accretion of $116 million resulting from the fair value discount on earning assets recorded for purchase accounting, along with new business volume, resulted in higher finance revenues that were up 10% from 2014. Overall, the yield on AEA of 5.73% was down from 2014, driven by the continued low rate environment and an increased mix of low yielding cash and securities stemming from the OneWest Bank acquisition. Although interest on loans was up as a result of the acquisition, yield compression in certain loan classes continued, as well as lower interest recoveries and lower prepayments. Portfolio yields by division are included in a forthcoming table in this section. We continued to grow our operating lease portfolio, which primarily consists of transportation related assets, aircraft and railcars, resulting in the higher average balance. Operating lease revenues and yields are discussed later in this section. Revenues generated on our cash deposits and investments are indicative of the existing low rate environment and were not significant in any of the periods. Revenues on cash deposits and investments have

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grown as the investments from the OneWest Bank acquisition, mostly MBSs, carry a higher rate of return than the previously owned investment portfolio and include a purchase accounting adjustment that accretes into income, thus increasing the yield.

The increase in average interest bearing liabilities reflects the $14.5 billion of deposits acquired, along with growth both pre- and post-acquisition, and $3 billion of acquired borrowings, essentially all FHLB advances. While interest expense was up modestly in amount, the overall rate as a % of AEA was down from 2014 and 2013, reflecting lower rates in nearly all deposit and borrowing categories and a higher mix of low cost deposits. Interest expense for 2015 was reduced by $12 million, reflecting the accretion of purchase accounting adjustments on borrowings and deposits. Interest expense on deposits was up in 2015, driven by the higher balances and partially offset by a net benefit from purchase accounting accretion. The decline in rate was the result of the lower cost deposits from OneWest Bank. Interest expense on borrowings is a function of the products and was mostly impacted by the OneWest Bank acquisition, which increased FHLB advances. FHLB advances had lower rates than our average borrowings in the year-ago quarter and prior quarter, thus reducing the average rate.

The composition of our funding was significantly impacted by the OneWest Bank acquisition. At December 31, 2015, 2014 and 2013 our funding mix was as follows:

Funding Mix

	December 31, 2015	December 31, 2014	December 31, 2013
Deposits	64 %	46 %	40 %
Unsecured	21 %	35 %	41 %
Secured Borrowings:			
Structured financings	9 %	18 %	18 %
FHLB Advances	6 %	1 %	1 %

These proportions will fluctuate in the future depending upon our funding activities.

The following table details further the rates of interest bearing liabilities.

Deposits and Borrowings (dollars in millions)

	Year Ended December 31, 2015			Year Ended December 31, 2014			Year Ended D
	Average Balance	Interest Expense	Rate %	Average Balance	Interest Expense	Rate %	Average Balance
Deposits							
CDs	$13,799.9	$253.2	1.83%	$8,672.1	$180.4	2.08%	$7,149.7
Interest-bearing checking	1,308.3	6.8	0.52%				
Savings	4,301.6	42.1	0.98%	3,361.7	32.1	0.95%	2,515.9
Money markets	3,352.9	28.8	0.86%	1,857.2	18.8	1.01%	1,514.9
Total deposits*	22,762.7	330.9	1.45%	13,891.0	231.3	1.67%	11,180.5
Borrowings							
Unsecured notes	10,904.0	561.3	5.15%	12,432.0	639.3	5.14%	11,982.9
Secured borrowings	5,584.4	206.4	3.70%	5,999.1	215.2	3.59%	6,027.2
FHLB advances	1,374.6	5.7	0.41%	151.0	0.6	0.40%	34.3
Total borrowings	17,863.0	773.4	4.33%	18,582.1	855.1	4.60%	18,044.4
Total interest-bearing liabilities	$40,625.7	$1,104.3	2.72%	$32,473.1	$1,086.4	3.35%	$29,224.9

* *Excludes certain deposits such as escrow accounts, security deposits, and other similar accounts, therefore totals may differ from other average balances included in this document.*

Deposits and borrowings are also discussed in *Funding and Liquidity*. See *Select Financial Data (Average Balances)* section for more information on borrowing rates.

The following table depicts selected earning asset yields and margin related data for our segments, plus select divisions within the segments.

Select Segment and Division Margin Metrics (dollars in millions)

	Years Ended December 31,		
	2015	**2014**	**2013**
North America Banking			
AEA	$18,794.7	15,074.1	13,605.4
Gross yield	5.86 %	6.17 %	6.85 %
NFM	3.91 %	3.73 %	4.21 %
AEA			
Commercial Banking	$8,537.5	$7,285.0	$6,993.5
Commercial Real Estate	3,213.6	1,687.6	1,119.0
Equipment Finance	5,590.7	5,086.3	4,389.7
Commercial Services	888.9	1,015.2	1,103.2
Consumer Banking	564.0		
Gross yield			
Commercial Banking	4.76 %	5.20 %	5.56 %
Commercial Real Estate	4.83 %	4.15 %	4.19 %
Equipment Finance	8.53 %	8.48 %	10.06 %
Commercial Services	4.80 %	4.94 %	4.98 %
Consumer Banking	3.63 %		
Transportation & International Finance			
AEA	$20,321.6	$19,330.7	$16,359.7
Gross yield	11.35 %	11.64 %	11.84 %
NFM	4.29 %	4.57 %	4.62 %
AEA			
Aerospace	$11,631.8	$11,301.8	$9,985.1
Rail	6,245.5	5,651.6	4,414.0
Maritime Finance	1,323.1	670.0	300.1
International Finance	1,121.2	1,707.3	1,660.5
Gross yield			
Aerospace	10.68 %	11.11 %	11.42 %
Rail	14.34 %	14.57 %	14.42 %
Maritime Finance	5.10 %	5.18 %	7.83 %
International Finance	9.04 %	7.95 %	8.31 %

	Years Ended December 31,		
Legacy Consumer Mortgages			
AEA	$2,483.5	$	$
Gross yield	6.16 %		
NFM	4.74 %		
AEA			
SFR mortgage loans	$2,101.1	$	$
Reverse mortgage loans	382.4		
Gross yield			
SFR mortgage loans	5.70 %		
Reverse mortgage loans	8.68 %		
Non-Strategic Portfolios			
AEA	$358.8	$1,192.2	$2,101.0
Gross yield	14.25 %	10.59 %	12.76 %
NFM	6.08 %	2.49 %	5.03 %

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In 2015 gross yields (interest income plus rental income on operating leases as a % of AEA) on NAB s commercial assets declined from the year-ago reflecting competitive pressures in certain industries, while NFM was up, benefiting from purchase accounting accretion and lower funding costs. Gross yields in Aerospace decreased from 2014 due to lower lease rates on re-leased assets, while gross yields in Rail were down, reflecting reduced utilization in energy-related railcars and portfolio growth (with new originations at lower yields than the existing portfolio). TIF International Finance margins vary between periods due to strategic asset sales. LCM was acquired in 2015 as part of the OneWest Transaction. Gross yields in the SFR portfolio will generally be lower than those of the reverse mortgages. NSP contains run-off portfolios, and as a result, gross yields varied due to asset sales and lower balances.

The yields in certain divisions of NAB and LCM for 2015 also reflect the net accretion of purchase accounting discounts as follows: NAB divisions Commercial Banking $35 million and Commercial Real Estate $29 million, and LCM $52 million.

The following table sets forth the details on net operating lease revenues.

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

	Years Ended December 31,					
	2015		2014		2013	
Rental income on operating leases	$2,152.5	14.08%	$2,093.0	14.41%	$1,897.4	15.22%
Depreciation on operating lease equipment	(640.5)	(4.19)%	(615.7)	(4.24)%	(540.6)	(4.33)%

	Years Ended December 31,					
Maintenance and other operating lease expenses	(231.0)	(1.51)%	(196.8)	(1.35)%	(163.1)	(1.31)%
Net operating lease revenue and %	$1,281.0	8.38 %	$1,280.5	8.82 %	$1,193.7	9.58 %
Average Operating Lease Equipment (AOL)	$15,294.1		$14,524.4		$12,463.8	

Net operating lease revenue was primarily generated from the commercial air and rail portfolios. Net operating lease revenue was essentially unchanged compared to the year-ago, as the benefit from growth in the portfolio was offset by lower rates, lower utilization and higher maintenance and other operating lease expenses.

Utilization was mixed compared to year end 2014; air utilization increased as all equipment was leased or under a commitment at year-end while rail utilization declined from 99% to 96%, reflecting pressures in demand for cars that transport crude, coal and steel, a trend that is expected to continue. All of the 15 aircraft scheduled for delivery in 2016 and approximately 55% of the total railcar order-book have lease commitments.

Depreciation on operating lease equipment mostly reflects transportation equipment balances and includes amounts related to impairments on equipment in the portfolio. Depreciation expense, while up in amount due to growth in the portfolio, was down slightly as a percentage of AOL from 2014. Once a long-lived asset is classified as assets held for sale, depreciation expense is no longer recognized, and the asset is evaluated for impairment with any such charge recorded in other income. (See *Non-interest Income Impairment on assets held for sale* for discussion on impairment charges). Consequently, net operating lease revenue includes rental income on operating lease equipment classified as assets held for sale, but there is no related depreciation expense. The amount of suspended depreciation on operating lease equipment in assets held for sale totaled $26 million for 2015, $24 million for 2013 and $73 million for 2013. Operating lease equipment in assets held for sale totaled $93 million at December 31, 2015, $440 million at December 31, 2014 and $205 million at December 31, 2013.

Maintenance and other operating lease expenses primarily relate to the rail portfolio and to a lesser extent aircraft re-leasing. Maintenance and other operating lease expenses was up reflecting elevated transition costs on several aircraft, increased maintenance, freight and storage costs in rail and growth in the portfolios.

The factors noted above affecting rental income, depreciation, and maintenance and other operating lease expenses drove the net operating lease revenue as a percent of AOL.

Upon emergence from bankruptcy in 2009, CIT applied Fresh Start Accounting (FSA) in accordance with GAAP. The most significant remaining discount at December 31, 2015, related to operating lease equipment ($1.3 billion related to rail operating lease equipment and $0.6 billion to aircraft operating lease equipment). The discount on the operating lease equipment was, in effect, an impairment of the operating lease equipment upon emergence from bankruptcy, as the assets were recorded at their fair value, which was less than their carrying value. The recording of the FSA adjustment reduced the asset balances subject to depreciation and thus decreases depreciation expense over the remaining useful life of the operating lease equipment or until it is sold.

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

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CREDIT METRICS

Non-accrual loans were $268 million (0.85% of finance receivables), up from $161 million (0.82%) at December 31, 2014 and $241 million (1.29%) at December 31, 2013. Non-accrual loans rose in 2015 due mainly to an increase in the energy portfolio, partially offset by a reduction from the sales of portfolios. If oil prices remain at current levels, the energy portfolio could see additional downward credit migration. Our exposure to the energy industry is discussed in the *Concentrations* section. The change in the percentage reflects the impact of the acquired OneWest Bank assets, discussed below. Non-accruals are discussed further in this section.

Loans acquired in the OneWest Transaction were recorded at estimated fair value at the time of acquisition. Credit losses were included in the determination of estimated fair value and were effectively recorded as purchase accounting discounts on loans as part of the fair value of the finance receivables. For PCI loans, a portion of the discount attributable to embedded credit losses of both principal, which we refer to as principal loss discount, and future interest was recorded as a non-accretable discount and is utilized as such losses occur. Any incremental deterioration on these loans results in incremental provisions or charge-offs. Improvements, or an increase in forecasted cash flows in excess of the non-accretable discount, reduces any allowance on the loan established after the acquisition date. Once such allowance (if any) has been reduced, the non-accretable discount is reclassified to accretable discount and is recorded as finance income over the remaining life of the account. PCI loans are not included in non-accrual loans or in past-due loans. For non-PCI loans, an allowance for loan losses is established to the extent our estimate of inherent loss exceeds the remaining purchase accounting discount.

The provision for credit losses reflects loss adjustments related to loans recorded at amortized cost, off-balance sheet commitments, and indemnification agreements. In conjunction with the OneWest Transaction, the provision for credit losses also includes the impact of the mirror accounting principal related to the indemnification agreements. The amount was not significant since the acquisition date, and is included in ‘Other in the table below. The provision for credit losses was $161 million for the current year, up from $100 million in 2014 and $65 million in 2013. The provision for credit losses reflected the reserve build on loan growth and an increase in the reserve resulting from the recognition of purchase accounting accretion on loans. The purchase accounting accretion, in effect, increases the carrying value of the non-PCI loan, thus requiring a higher reserve. In addition, the provision was elevated due to increases in reserves related to the energy sector, and to a lesser extent the maritime portfolios, and from the establishment of reserves on certain acquired non-credit impaired loans in the initial period post acquisition.

Net charge-offs were $138 million (0.55% as a percentage of average finance receivables) in 2015, up from $99 million (0.52%) in 2014 and $81 million (0.44%) in 2013. Net charge-offs include $73 million in 2015, $43 million in 2014, and $39 million in 2013 related to the transfer of receivables to assets held for sale. Absent AHFS transfer related charge-offs, net charge-offs were 0.25%, 0.29% and 0.23% for the years ended December 31, 2015, 2014 and 2013, respectively. Recoveries of $28 million were flat with 2014 and down from $58 million in 2013.

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

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

	Years ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Allowance beginning of period	$346.4	$356.1	$379.3	$407.8	$416.2
Provision for credit losses[(1)]	160.5	100.1	64.9	51.4	269.7
Other[(1)]	(9.1)	(10.7)	(7.4)	(5.8)	(12.9)
Net additions	151.4	89.4	57.5	45.6	256.8
Gross charge-offs[(2)]	(166.0)	(127.5)	(138.6)	(141.7)	(368.8)
Recoveries	28.4	28.4	57.9	67.6	103.6
Net Charge-offs	(137.6)	(99.1)	(80.7)	(74.1)	(265.2)
Allowance end of period	$360.2	$346.4	$356.1	$379.3	$407.8
Provision for credit losses					
Specific reserves on impaired loans	$15.4	$(18.0)	$(14.8)	$(9.4)	$(66.7)
Non-specific reserves	7.5	19.0	(1.0)	(13.3)	71.2
Net charge-offs	137.6	99.1	80.7	74.1	265.2
Total	$160.5	$100.1	$64.9	$51.4	$269.7
Allowance for loan losses					
Specific reserves on impaired loans	$27.8	$12.4	$30.4	$45.2	$54.6
Non-specific reserves	332.4	334.0	325.7	334.1	353.2
Total	$360.2	$346.4	$356.1	$379.3	$407.8
Ratio					
Allowance for loan losses as a percentage of total loans	1.14%	1.78%	1.91%	2.21%	2.68%
Allowance for loan losses as a percent of finance receivable/Commercial	1.42%	1.78%	1.91%	2.21%	2.68%
Allowance for loan losses plus principal loss discount as a percent of finance receivables (before the principal loss discount)/Commercial	1.80%	1.78%	1.91%	2.21%	2.68%
Allowance for loan losses plus principal loss discount as a percent of finance receivables (before the principal loss discount)/Consumer	8.89%				

(1) *The provision for credit losses includes amounts related to reserves on unfunded loan commitments, unused letters of credit, and for deferred purchase agreements, all of which are reflected in other liabilities. The items included in other liabilities totaled $43 million, $35 million, $28 million, $23 million and $22 million at December 31, 2015, 2014, 2013, 2012 and 2011, respectively. In addition, for the year ended December 31, 2015, the provision also includes the impact of the mirror accounting principal related to the indemnification agreements. Other includes amounts in the provision for credit losses that do not relate to the allowance for loan losses, and include the previously mentioned items.*

(2)

Gross charge-offs included $73 million, $43 million, and $39 million of charge-offs related to the transfer of receivables to assets held for sale for the years ended December 31, 2015, 2014 and 2013, respectively. Prior year amounts were not significant.

The allowance for loan losses (ALLL) was $360 million (1.14% of finance receivables, 1.35% excluding loans subject to loss sharing agreements with the FDIC) at December 31, 2015. The increase in the allowance from the prior year reflects the reserve build on new loans and on certain acquired non-credit impaired loans.

In addition, we continuously update the allowance as we monitor credit quality within industry sectors. For instance, the pressures during the year in oil related sectors of energy industries caused increases in specific allowances on certain loans and, along with exposures to certain maritime sectors, also an increase to the non-specific allowance due to lower credit quality. The impact of lower oil and natural gas prices on the energy related sectors of Rail are reflected in lower utilization rates and lease rates for tank cars, sand cars and coal cars, not in non-accrual loans, provision for credit losses, or net charge-offs, since it is primarily an operating lease portfolio, not a loan portfolio.

Our exposure to oil and gas extraction services approximated $1.0 billion at December 31, 2015, or approximately 3% and 4% of total loans and commercial loans, respectively. Approximately 50% of the portfolio is related to exploration and production activities, with the majority of the portfolio secured by traditional reserve-based lending assets, working capital assets and long-

lived fixed assets. Reserve strengthening in this portfolio contributed to both the increase in provision from prior years and the increase in ALLL to loans in the Commercial portfolio. Including both reserves and marks from the acquisition accounting on the OWB portfolio, the loss coverage approximated 10% at December 31, 2015. If oil prices remain at current levels, we could see additional downward credit migration.

The decline in the percentage of allowance to finance receivables reflects the OneWest Bank acquisition, which added $13.6 billion of loans at fair value with no related allowance at the time of acquisition. Including the impact of the principal loss discount on credit impaired loans, which is essentially a reserve for credit losses on the discounted loans, the commercial loan allowance to finance receivables was 1.80%. The consumer loans ratio including the principal loss discount on credit impaired loans was 8.89% at December 31, 2015, as most of the consumer loans purchased were credit impaired and are partially covered by loss share agreements with the FDIC.

In the previous table, we included new allowance metrics to assist in detailing the impact of the acquired portfolio on our ALLL coverage ratio given the impact of adding the OneWest Bank portfolio at fair value and the addition of consumer loans.

Due to the OneWest Bank acquisition, we updated our reserving policies to accommodate the additional asset classes. See *Note 1 Business and Summary of Significant Accounting Policies* for discussion on policies relating to the allowance for loan losses *and Note 4 Allowance for Loan Losses* for additional segment related data in *Item 8 Financial Statements and Supplementary Data* and *Critical Accounting Estimates* for further analysis of the allowance for credit losses.

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

	Finance Receivables	Allowance for Loan Losses	Net Carrying Value
December 31, 2015			
North America Banking	$ 22,701.1	$ (314.2)	$ 22,386.9
Transportation & International Finance	3,542.1	(39.4)	3,502.7
Legacy Consumer Mortgages	5,428.5	(6.6)	5,421.9
Total	$ 31,671.7	$ (360.2)	$ 31,311.5
December 31, 2014			
North America Banking	$ 15,936.0	$ (299.6)	$ 15,636.4
Transportation & International Finance	3,558.9	(46.8)	3,512.1
Non-Strategic Portfolio	0.1	–	0.1
Total	$ 19,495.0	$ (346.4)	$ 19,148.6
December 31, 2013			
North America Banking	$ 14,693.1	$ (303.8)	$ 14,389.3
Transportation & International Finance	3,494.4	(46.7)	3,447.7
Non-Strategic Portfolio	441.7	(5.6)	436.1
Total	$ 18,629.2	$ (356.1)	$ 18,273.1
December 31, 2012			
North America Banking	$ 13,084.4	$ (293.7)	$ 12,790.7
Transportation & International Finance	2,556.5	(44.3)	2,512.2
Non-Strategic Portfolio	1,512.2	(41.3)	1,470.9
Total	$ 17,153.1	$ (379.3)	$ 16,773.8
December 31, 2011			
North America Banking	$ 11,894.7	$ (309.8)	$ 11,584.9
Transportation & International Finance	1,848.1	(36.3)	1,811.8
Non-Strategic Portfolio	1,483.0	(61.7)	1,421.3
Total	$ 15,225.8	$ (407.8)	$ 14,818.0

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

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

	2015		2014		2013		
Gross Charge-offs							
Aerospace	$1.0	0.06%	$0.7	0.05%	$		$

	2015		2014		2013		
Maritime	0.7	0.05%					
International Finance	33.6	8.10%	44.1	3.34%	26.0	1.76 %	
Transportation & International Finance[1]	35.3	0.98%	44.8	1.25%	26.0	0.84 %	
Commercial Banking	62.8	0.77%	29.7	0.42%	21.9	0.33 %	
Equipment Finance	60.5	1.31%	35.8	0.84%	32.0	0.82 %	
Commercial Real Estate							
Commercial Services	6.2	0.26%	9.7	0.41%	4.4	0.19 %	
North America Banking[2]	129.5	0.68%	75.2	0.49%	58.3	0.42 %	
Legacy Consumer Mortgages	1.2	0.05%					
Non-Strategic Portfolio[3]			7.5	4.91%	54.3	4.82 %	
Total	$166.0	0.67%	$127.5	0.67%	$138.6	0.76 %	$
Recoveries							
Aerospace	$0.2	0.01%	$0.2	0.02%	$1.1	0.09 %	$
International Finance	8.3	2.00%	6.9	0.53%	8.0	0.54 %	
Transportation & International Finance[1]	8.5	0.23%	7.1	0.19%	9.1	0.29 %	
Commercial Banking	3.7	0.05%	0.5	0.01%	8.0	0.12 %	
Equipment Finance	13.8	0.30%	16.4	0.38%	24.0	0.61 %	
Commercial Real Estate							
Commercial Services	1.5	0.06%	2.1	0.09%	7.8	0.33 %	
North America Banking[2]	19.0	0.10%	19.0	0.13%	39.8	0.29 %	
Legacy Consumer Mortgages	0.9	0.04%					
Non-Strategic Portfolio[3]			2.3	1.44%	9.0	0.81 %	
Total	$28.4	0.12%	$28.4	0.15%	$57.9	0.32 %	$
Net Charge-offs							
Aerospace	$0.8	0.05%	$0.5	0.03%	$(1.1)	-0.09%	$
Maritime	0.7	0.05%					
International Finance	25.3	6.10%	37.2	2.81%	18.0	1.22 %	
Transportation & International Finance[1]	26.8	0.75%	37.7	1.06%	16.9	0.55 %	
Commercial Banking	59.1	0.72%	29.2	0.41%	13.9	0.21 %	
Equipment Finance	46.7	1.01%	19.4	0.46%	8.0	0.21 %	
Commercial Real Estate							
Commercial Services	4.7	0.20%	7.6	0.32%	(3.4)	-0.14%	
North America Banking[2]	110.5	0.58%	56.2	0.36%	18.5	0.13 %	
Legacy Consumer Mortgages	0.3	0.01%					
Non-Strategic Portfolio[3]			5.2	3.47%	45.3	4.01 %	
Total	$137.6	0.55%	$99.1	0.52%	$80.7	0.44 %	$

(1) *TIF charge-offs for 2015, 2014 and 2013 included approximately $27 million, $18 million and $2 million, respectively, related to the transfer of receivables to assets held for sale.*

(2) *NAB charge-offs for 2015, 2014 and 2013 included approximately $46 million, $18 million and $5 million, respectively, related to the transfer of receivables to assets held for sale.*

(3) *NSP charge-offs for 2015, 2014 and 2013 included approximately $0, $7 million and $32 million, respectively, related to the transfer of receivables to assets held for sale.*

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Net charge-offs had trended lower through 2012. Then in conjunction with strategic initiatives, transfers of portfolios to assets held for sale increased the balances beginning in 2013. This trend continued into 2015, with significant charge-offs recorded on the transfers to AHFS of the Canada (NAB) and China (TIF) portfolios, along with certain asset sales in NAB. Excluding assets transferred to held for sale, net charge-offs were $65 million, up from $56 million and $42 million for 2014 and 2013, respectively, reflecting an increase in the energy portfolio in NAB.

Recoveries remained relatively low in 2015. Charge-offs associated with AHFS do not generate future recoveries as the loans are generally sold before recoveries can be realized and any gains on sales are reported in other income.

The tables below present information on non-accruing loans, which includes loans related to assets held for sale for each period, and when added to OREO and other repossessed assets, sums to non-performing assets. PCI loans are excluded from these tables as they are written down at acquisition to their fair value using an estimate of cashflows deemed to be collectible. Accordingly, such loans are no longer classified as past due or non-accrual even though they may be contractually past due because we expect to fully collect the new carrying values of these loans.

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

	2015	2014	2013	2012	2011
Non-accrual loans					
U.S.	$185.3	$71.9	$176.3	$273.1	$623.6
Foreign	82.4	88.6	64.4	57.0	77.8
Non-accrual loans	$267.7	$160.5	$240.7	$330.1	$701.4
Troubled Debt Restructurings					
U.S.	$25.2	$13.8	$218.0	$263.2	$427.5
Foreign	15.0	3.4	2.9	25.9	17.7
Restructured loans	$40.2	$17.2	$220.9	$289.1	$445.2
Accruing loans past due 90 days or more					
Accruing loans past due 90 days or more	$15.8	$10.3	$9.9	$3.4	$2.2

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

	2015		2014		2013	
Commercial Banking	$131.5	1.39%	$30.9	0.45%	$83.8	1.23 %
Equipment Finance	65.4	1.49%	70.0	1.48%	59.4	1.47 %
Commercial Real Estate	3.6	0.07%				
Commercial Services					4.2	0.19 %
Consumer Banking	0.4	0.03%				
North America Banking	200.9	0.88%	100.9	0.63%	147.4	1.00 %
Aerospace	15.4	0.87%	0.1	0.01%	14.3	0.86 %
International Finance	46.6	NM	37.1	5.93%	21.0	1.21 %

	2015		2014		2013	
Transportation & International Finance	62.0	1.75%	37.2	1.05%	35.3	1.01 %
Legacy Consumer Mortgages	4.8	0.09%				
Non-Strategic Portfolio			22.4	NM	58.0	13.14%
Total	$267.7	0.85%	$160.5	0.82%	$240.7	1.29 %

NM not meaningful; Non-accrual loans include loans held for sale. The December 31, 2014 Non-Strategic Portfolios and the December 31, 2015 International Finance amounts reflected non-accrual loans held for sale; since portfolio loans were insignificant, no % is displayed.

Non-accrual loans rose in 2015, with energy related accounts driving the increase in Commercial Banking, partially offset by a reduction from the sales of international platforms, including Mexico and Brazil. Real estate owned as a result of foreclosures of secured mortgage loans was $122 million at December 31, 2015, recorded in the LCM segment acquired with the OneWest Bank transaction. Non-accrual loans remained at low levels during 2014. The improvements in 2014 reflect the relatively low levels of new non-accruals, the resolution of a small number of larger accounts in Commercial Banking and the sale of the Small Business Lending unit in NSP. The entire NSP portfolio at December 2014 was classified as held for sale making the percentage of finance receivables not meaningful while the 2013 NSP non-accruals included $40 million related to accounts in held for sale resulting in an increase of non-accruals as a percentage of finance receivables.

Approximately 61% of our non-accrual accounts were paying currently compared to 54% at December 31, 2014. Our impaired loan carrying value (including PAA discount, specific reserves and charge-offs) to estimated outstanding unpaid principal balances

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approximated 87%, compared to 68% at December 31, 2014. For this purpose, impaired loans are comprised principally of non-accrual loans over $500,000 and TDRs.

Total delinquency (30 days or more) was 1.1% of finance receivables at December 31, 2015, compared to 1.7% at December 31, 2014 due primarily to the increase in finance receivables due to the OneWest acquisition.

Foregone Interest on Non-accrual Loans and Troubled Debt Restructurings (dollars in millions)

	Years Ended December 31								
	2015			2014			2013		
	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
Interest revenue that	$23.7	$9.8	$33.5	$22.8	$12.4	$35.2	$52.9	$12.4	$65.3

	Years Ended December 31								
would have been earned at original terms									
Less: Interest recorded	(5.9)	(3.2)	(9.1)	(6.7)	(4.2)	(10.9)	(18.4)	(4.2)	(22.6)
Foregone interest revenue	$17.8	$6.6	$24.4	$16.1	$8.2	$24.3	$34.5	$8.2	$42.7

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

The tables that follow reflect loan carrying values of accounts that have been modified, excluding PCI loans.

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

	2015		2014		2013	
		% Compliant		**% Compliant**		**% Compliant**
Troubled Debt Restructurings						
Deferral of principal and/or interest	$5.4	99 %	$6.0	96 %	$194.6	99 %
Covenant relief and other	34.8	88 %	11.2	83 %	26.3	74 %
Total TDRs	$40.2	90 %	$17.2	88 %	$220.9	96 %
Percent non accrual	63 %		75 %		33 %	
Modifications[1]						
Extended maturity	$0.2	100 %	$0.1	100 %	$14.9	37 %
Covenant relief	23.1	83 %	70.9	100 %	50.6	100 %
Interest rate increase	9.3	100 %	25.1	100 %	21.8	100 %
Other	218.4	100 %	58.3	100 %	62.6	87 %
Total Modifications	$251.0	98 %	$154.4	100 %	$149.9	89 %
Percent non-accrual	16 %		10 %		23 %	

(1) *Table depicts the predominant element of each modification, which may contain several of the characteristics listed.*

The increase in modifications reflects the addition of a few larger accounts.

Purchased Credit-Impaired Loans

PCI loan portfolios were initially recorded at estimated fair value with no allowance for loan losses carried over, since the initial fair values reflected credit losses expected to be incurred over the remaining lives of the loans. The acquired loans are subject to the Company s internal credit review.

PCI loans, TDRs and other credit quality information is included in *Note 3 Loans* in *Item 8. Financial Statements and Supplementary Data*. See also *Note 1 Business and Summary of Significant Accounting Policies* in *Item 8. Financial Statements and Supplementary Data*.

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NON-INTEREST INCOME

As presented in the following table, Non-interest Income includes Rental Income on Operating Leases and Other Income. Other income was impacted by the inclusion of OneWest Bank activity for five months during 2015. The following discussion is on a consolidated basis; Non-interest income is also discussed in each of the individual segments in *Results By Business Segment.*

Non-interest Income (dollars in millions)

	Years Ended December 31,		
	2015	**2014**	**2013**
Rental income on operating leases	$2,152.5	$2,093.0	$1,897.4
Other Income:			
Factoring commissions	116.5	120.2	122.3
Fee revenues	108.6	93.1	101.5
Gains on sales of leasing equipment	101.1	98.4	130.5
Gain on investments	0.9	39.0	8.2
Loss on OREO sales	(5.4)		
Net (losses) gains on derivatives and foreign currency exchange	(32.9)	(37.8)	1.0
(Loss) gains on loan and portfolio sales	(47.3)	34.3	48.8
Impairment on assets held for sale	(59.6)	(100.7)	(124.0)
Other revenues	37.6	58.9	93.0
Total other income	219.5	305.4	381.3
Total non-interest income	$2,372.0	$2,398.4	$2,278.7

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

Rental income on operating leases from equipment we lease is generated largely in the TIF segment and recognized principally on a straight line basis over the lease term. Rental income is discussed in *Net Finance Revenues* and *Results by Business Segment* . See also *Note 6 Operating Lease Equipment* in *Item 8 Financial Statements and Supplementary Data* for additional information on operating leases.

Other income declined in 2015 and 2014 reflecting the following:

Factoring commissions declined slightly, reflecting the change in the underlying portfolio mix and a decline in factoring volume. Factoring volume was $25.8 billion in 2015, a decrease from $26.7 billion in 2014 and comparable to $25.7 billion for 2013.

Fee revenues include fees on lines of credit and letters of credit, capital markets-related fees, agent and advisory fees, and servicing fees for the assets that we sell, but for which we retain servicing. As a result of the acquisition, banking fee products expanded and included items such as cash management fees and account fees but had little impact in the year. Fee revenues are mainly driven by our NAB segment.

Gains on sales of leasing equipment resulted from the sale of approximately $1.2 billion of leasing equipment in each of 2015, 2014 and 2013. Gains as a percentage of equipment sold in 2015 approximated the prior year and decreased from the 2013 percentage and will vary based on the type and age of equipment sold. Equipment sales for 2015 included $0.9 billion in TIF assets, and $0.3 billion in NAB assets. Equipment sales for 2014 included $0.8 billion in TIF and over $0.3 billion in NAB. Equipment sales for 2013 included $0.9 billion in TIF assets and $0.3 billion in NAB assets. TIF sold approximately $450 million and $330 million of aircraft to TC-CIT Aviation, a joint venture with Century Tokyo Leasing, in 2015 and 2014, respectively.

Gains on investments primarily reflected sales of equity investments that were received as part of a lending transaction or, in some cases, a workout situation. The gains were mostly in NAB.

Loss on OREO sales reflects adjustments to the carrying value of Other Real Estate Owned (OREO) assets. OREO properties were acquired in the OneWest Transaction and pertain to foreclosures in the mortgage portfolios.

(Losses) gains on derivatives and foreign currency exchange includes transactional foreign currency movements that resulted in losses of $112 million in 2015 driven by the strengthening of the U.S. currency against the Canadian dollar, Euro and U.K. Pound Sterling, losses of $133 million in 2014, and losses of $14 million in 2013. The impact of these transactional foreign currency movements was offset by gains of $121 million in 2015, $124 million in 2014 and $20 million in 2013 on derivatives that economically hedge foreign currency movements and other exposures.

Valuation of the derivatives within the GSI facility resulted in losses of $30 million in 2015, $15 million for 2014, and $4 million for 2013. The increases primarily reflected the higher unused portion of the facility.

In addition, there were losses of $12 million, $14 million and $1 million in 2015, 2014 and 2013, respectively, on the realization of cumulative translation adjustment (CTA) amounts from AOCI due to translational adjustments related to liquidating entities. As of December 31, 2015, there was approximately $10 million of CTA losses included in accumulated other comprehensive loss in the Consolidated Balance Sheet related to the U.K., which was sold in January 2016. In conjunction with the closing of the transactions, certain CTAs will be recognized as a reduction to income, with the pre-tax amount charged to other income and the tax effect in the provision for income taxes. The CTA amounts will fluctuate until the transactions are completed. For additional information on the impact of derivatives on the income statement, refer to *Note 11 Derivative Financial Instruments* in *Item 8 Financial Statements and Supplementary Data*.

(Losses) gains on loan and portfolio sales in 2015 were significantly impacted by $69 million of losses in NSP, primarily due to the realization of CTA losses of approximately $70 million related to the sales of the Mexico and Brazil businesses, partially offset by gains on sales volume of $0.8 billion in NAB, and a small amount in TIF. The prior year sales volume totaled $1.4 billion, which included $0.5 billion in each of TIF and NAB and over $0.4 billion in NSP. TIF activity in 2014 was primarily due to the sale of the U.K. corporate lending portfolio (gain of $11 million) and 2014 NSP sales were primarily due to the SBL sale (gains on which were minimal). The 2013 sales volume totaled $0.9 billion, which included $0.6 billion in NSP, and over $0.1 billion in both NAB and TIF. Over 80% of 2013 gains related to NSP and included gains from the sale of the Dell Europe portfolio.

Impairment on assets held for sale in 2015 were driven by charges on the Mexico and Brazil portfolios held for sale in NSP, the transfer of the Canada portfolio to AHFS and an impairment of associated goodwill in NAB, and international portfolios in TIF. Impairment charges in 2014 included $70 million for NSP identified as subscale platforms and $31 million from TIF. In 2014 TIF charges include over $19 million related to commercial aircraft operating lease equipment held for sale and the remainder related to the transfer of the U.K. portfolio to AHFS. The 2013 amount included $105 million of charges related to NSP and $19 million for TIF operating lease equipment (mostly aerospace related). NSP activity included $59 million of charges related to the Dell Europe portfolio operating lease equipment and the remaining 2013 NSP impairment related mostly to the international platform rationalization. Impairment charges are also recorded on operating lease equipment in AHFS. When an operating lease asset is classified as held for sale, depreciation expense is suspended and the asset is evaluated for impairment with any such charge recorded in other income. (See *Other Expenses* for related discussion on depreciation on operating lease equipment.)

Other revenues included items that are more episodic in nature, such as gains on work-out related claims, proceeds received in excess of carrying value on non-accrual accounts held for sale, which were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and income from joint ventures. The 2013 amount included gains on workout related claims of $19 million in NAB and $13 million in TIF. Other revenue also includes certain recoveries not part of the provision for credit losses, which totaled $17 million in 2015, $20 million in 2014 and $22 million in 2013. The prior year balances also include accretion of a counterparty receivable of $11 million in 2014 and $9 million in 2013.

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EXPENSES

As discussed below, certain operating expenses were impacted by the inclusion of OneWest Bank activity for five months during 2015.

Non-Interest Expense (dollars in millions)

	Years Ended December 31,		
	2015	**2014**	**2013**
Depreciation on operating lease equipment	$640.5	$615.7	$540.6
Maintenance and other operating lease expenses	231.0	196.8	163.1
Operating expenses:			
Compensation and benefits	594.0	533.8	535.4
Professional fees	141.0	80.6	69.1
Technology	109.8	85.2	83.3
Net occupancy expense	50.7	35.0	35.3
Advertising and marketing	31.3	33.7	25.2
Other	170.0	140.7	185.0
Operating expenses, excluding restructuring costs and intangible asset amortization	1,096.8	909.0	933.3
Provision for severance and facilities exiting activities	58.2	31.4	36.9
Intangible assets amortization	13.3	1.4	
Total operating expenses	1,168.3	941.8	970.2
Loss on debt extinguishments	2.6	3.5	
Total non-interest expenses	$2,042.4	$1,757.8	$1,673.9
Headcount	4,900	3,360	3,240
Operating expenses excluding restructuring costs and intangible asset amortization as a % of AEA[(1)]	2.25 %	2.23 %	2.48 %
Net efficiency ratio[(2)]	57.4 %	52.7 %	52.7 %

(1) *Operating expenses excluding restructuring costs and intangible asset amortization as a % of AEA is a non-GAAP measure; see Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.*

(2) *Net efficiency ratio is a non-GAAP measurement used by management to measure operating expenses (before restructuring costs and intangible amortization) to the level of total net revenues. See Non-GAAP Financial Measurements for a reconciliation of non-GAAP to GAAP financial information.*

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

Maintenance and other operating lease expenses primarily relate to equipment ownership and leasing costs in TIF. The majority of the maintenance expenses are related to the railcar fleet, while the majority of operating lease expenses are related to aircraft. CIT Rail provides railcars primarily pursuant to full-service lease contracts under which CIT Rail as lessor is responsible for railcar maintenance and repair. Maintenance expenses on railcars increased in 2015 on the growing portfolio with increased costs associated with end of lease railcar returns and increased

Railroad Interchange repair expenses.

Under our aircraft leases, the lessee is generally responsible for normal maintenance and repairs, airframe and engine overhauls, compliance with airworthiness directives, and compliance with return conditions of aircraft on lease. As a result, aircraft operating lease expenses primarily relate to transition costs incurred in connection with re-leasing an aircraft. In Aerospace, during the 2015 fourth quarter a few aircraft were returned that required higher transition costs to be incurred to re-lease aircraft.

The increase in maintenance and other operating lease expenses in 2014 from 2013 reflected the growing rail portfolio.

Operating expenses increased in 2015, mostly reflecting the acquisition of OneWest Bank and the associated five months of expenses. In addition, 2015 included elevated transaction costs to close the acquisition (included primarily in professional fees) and an increase in FDIC insurance costs resulting from the acquisition, partially offset by savings from the completion of the Mexico business sale in 2015. We anticipate certain expenses, such as compensation and benefits, will increase in 2016 as this will include an entire year of OneWest Bank employees, as com-

pared to five months in the current year. Operating expenses decreased in 2014 from 2013, due to the 2013 Tyco International Ltd. (Tyco) tax agreement settlement charge of $50 million, discussed below in *Other expenses*. Absent that charge, operating expenses increased by 2%, which included integration costs and additional employee costs related to the Direct Capital and Nacco acquisitions.

Operating expenses reflect the following changes:

(1) Compensation and benefits increased in 2015, reflecting the impact of the net increase of 1,540 employees, primarily associated with the OneWest Bank acquisition. Operating expenses had decreased in 2014 as progress on various expense initiatives was partly offset by increased costs related to the acquisitions. Headcount was up in 2015 as noted above, while also up at December 31, 2014, driven by the Direct Capital and Nacco acquisitions. See *Note 20 Retirement, Postretirement and Other Benefit Plans* in *Item 8. Financial Statements and Supplementary Data*.

(2) Professional fees include legal and other professional fees, such as tax, audit, and consulting services. The 2015 and 2014 increases resulted from acquisitions, including $24 million in transaction costs in the 2015 third quarter related to the OneWest Transaction, additional other integration related costs, and exits of our non-strategic portfolios.

(3) Technology costs increased in 2015, primarily reflecting amounts incurred to integrate OneWest Bank.

(4) Net Occupancy expenses were up in 2015 reflecting the added costs associated with OneWest Bank, which included 70 branch locations.

(5) Advertising and marketing expenses include costs associated with raising deposits. Bank advertising and marketing costs have increased in conjunction with the growth of CIT Bank. Advertising and marketing costs in

the Bank totaled $22 million in 2015, $25 million in 2014, and $15 million in 2013.

(6) Provision for severance and facilities exiting activities reflects costs associated with various organization efficiency initiatives. Restructuring costs in 2015 mostly relate to severance related to streamlining the senior management structure, mainly the result of the OneWest Bank acquisition. The 2014 charges were primarily severance costs related to the termination of approximately 150 employees. The facility exiting activities were minor in comparison. See *Note 27 Severance and Facility Exiting Liabilities* for additional information in *Item 8. Financial Statements and Supplementary Data*.

(7) Amortization of intangible assets increased, primarily reflecting five months of amortization of the intangible assets recorded in the OneWest Bank acquisition. See *Note 26 Goodwill and Intangible Assets* in *Item 8. Financial Statements and Supplementary Data*, which displays the intangible assets by type and segment, and describes the accounting methodologies.

(8) Other expenses include items such as travel and entertainment, insurance, FDIC costs, office equipment and supplies costs and taxes other than income taxes. Other expenses increased in 2015 primarily due to five months of OneWest Bank activity and declined in 2014 primarily due to the 2013 $50 million expense for the Tyco tax agreement settlement. In 2014, other expenses also include increased Bank deposit insurance costs.

Loss on debt extinguishments for 2014 primarily related to early extinguishments of unsecured debt maturing in February 2015.

INCOME TAXES

Income Tax Data (dollars in millions)

	Years Ended December 31,		
	2015	**2014**	**2013**
Provision for income taxes, before discrete items	$135.8	$47.4	$54.4
Discrete items	(624.2)	(445.3)	29.5
Provision for income taxes	$(488.4)	$(397.9)	$83.9
Effective tax rate	(84.5)%	(58.4)%	11.4%

The Company s 2015 income tax benefit from continuing operations is $488.4 million. This compares to an income tax benefit of $397.9 million in 2014 and an income tax provision of $83.9 million in 2013. The income tax provision before impact of discrete items was higher this year, as compared to the prior years, primarily the consequence of the partial release of the domestic valuation allowance on the net deferred tax assets (“DTA”) in 2014 resulting in the recognition in 2015 of deferred federal and state income tax expense on domestic earnings. The current year tax provision reflected federal and state income taxes in the U.S. as well as taxes on earnings of certain international operations. Included in the discrete tax benefit of $624.2 million for the current year is:

- $647 million tax benefit corresponding to a reduction to the U.S. federal DTA valuation allowance after considering the impact on earnings of the OneWest acquisition to support the Company s ability to utilize the U.S. federal net operating losses,
- $29 million tax expense including interest and penalties related to an uncertain tax position taken on certain prior year international tax returns,

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- $28 million tax expense related to establishment of domestic and international deferred tax liabilities due to Management s decision to no longer assert its intent to indefinitely reinvest its unremitted earnings in China,

- $18 million tax benefit including interest and penalties related to changes in uncertain tax positions from resolution of open tax matters and closure of statutes, and

- $9 million tax benefit corresponding to a reduction of certain tax reserves upon the receipt of a favorable tax ruling on an uncertain tax position taken on prior years tax returns.

The 2014 income tax provision of $47.4 million, excluding discrete items, reflected income tax expense on the earnings of certain international operations and state income tax expense in the U.S. Included in the prior year net discrete tax benefits of $445.3 million was a $375 million tax benefit relating to the reduction to the U.S. net federal DTA valuation allowance, a $44 million reduction to the valuation allowances on certain international net DTAs and approximately a $30 million tax benefit related to an adjustment to the U.S. federal and state valuation allowances due to the acquisition of Direct Capital, offset partially by other miscellaneous net tax expense items.

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

The change in the effective tax rate each period is impacted by a number of factors, including the relative mix of domestic and international earnings, adjustments to the valuation allowances, and discrete items. The actual year-end 2015 effective tax rate may vary from near term future periods due to the changes in these factors.

The determination of whether or not to maintain the valuation allowances on certain reporting entities DTAs requires significant judgment and an analysis of all positive and negative evidence to determine whether it is more likely than not that these future benefits will be realized. ASC 740-10-30-18 states that future realization of the tax benefit of an existing deductible temporary difference or NOL carry-forward ultimately depends on the existence of sufficient taxable income within the carryback and carry-forward periods available under the tax law. As such, the Company considered the following potential sources of taxable income in its assessment of a reporting entity s ability to recognize its net DTA:

- Taxable income in carryback years,

- Future reversals of existing taxable temporary differences (deferred tax liabilities),

- Prudent and feasible tax planning strategies, and
- Future taxable income forecasts.

Through the second quarter of 2014, the Company generally maintained a full valuation allowance against its net DTAs. During the third quarter of 2014, management concluded that it was more likely than not that the Company will generate sufficient future taxable income within the applicable carry-forward periods to realize $375 million of its U.S. net federal DTAs. This conclusion was reached after weighing all of the evidence and determining that the positive evidence outweighed the negative evidence, which included consideration of:

- The U.S. group transitioned into a 3-year (12 quarter) cumulative normalized income position in the third quarter of 2014, resulting in the Company s ability to significantly increase the reliance on future taxable income forecasts.
- Management s long-term forecast of future U.S. taxable income supporting partial utilization of the U.S. federal NOLs prior to their expiration, and
- U.S. federal NOLs not expiring until 2027 through 2033.

The forecast of future taxable income for the Company reflects a long-term view of growth and returns that management believes is more likely than not of being realized.

For the U.S. state valuation allowance, the Company analyzed the state net operating loss carry-forwards for each reporting entity to determine the amounts that are expected to expire unused. Based on this analysis, it was determined that the existing valuation allowance was still required on the U.S. state DTAs on net operating loss carry-forwards. Accordingly, no discrete adjustment was made to the U.S. State valuation allowance in 2014. The negative evidence supporting this conclusion was as follows:

- Certain separate U.S. state filing entities remaining in a three year cumulative loss, and
- State NOLs expiration periods varying in time.

Additionally, during 2014, the Company reduced the U.S. federal and state valuation allowances in the normal course as the Company recognized U.S. taxable income. This taxable income reduced the DTA on NOLs, and, when combined with a concurrent increase in net deferred tax liabilities, which are mainly related to accelerated tax depreciation on the operating lease portfolios, resulted in a reduction in the net DTA and corresponding reduction in the valuation allowance. This net reduction was further offset by favorable IRS audit adjustments and the favorable resolution of an uncertain tax position related to the computation of cancellation of debt income CODI coming out of the 2009 bankruptcy, which resulted in adjustments to the NOLs. As of December 31, 2014, the Company retained a valuation allowance of $1.0 billion against its U.S. net DTAs, of which approximately $0.7 billion was against its DTA on the U.S. federal NOLs and $0.3 billion was against its DTA on the U.S. state NOLs.

The ability to recognize the remaining valuation allowances against the DTAs on the U.S. federal and state NOLs, and capital loss carry-forwards was evaluated on a quarterly basis to determine if there were any significant events that affected our ability to utilize these DTAs. If events were identified that affected our ability to utilize our DTAs, the analysis was updated to determine if any adjustments to the valuation allowances were required. Such events included acquisitions that support the Company s long-term business strategies while also enabling it to accelerate the utilization of its net operating losses, as evidenced by the acquisition of Direct Capital Corporation in 2014 and the acquisition of OneWest Bank in 2015.

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During the third quarter of 2015, Management updated the Company s long-term forecast of future U.S. federal taxable income to include the anticipated impact of the OneWest Bank acquisition. The updated long-term forecast supports the utilization of all of the U.S. federal DTAs (including those relating to the NOLs prior to their expiration). Accordingly, Management concluded that it is more likely than not that the Company will generate sufficient future taxable income within the applicable carry-forward periods to enable the Company to reverse the remaining $690 million of U.S. federal valuation allowance, $647 million of which was recorded as a discrete item in the third quarter, and the remainder of which was included in determining the annual effective tax rate as normal course in the third and fourth quarters of 2015 as the Company recognized additional U.S. taxable income related to the OneWest Bank acquisition.

The Company also evaluated the impact of the OneWest Bank acquisition on its ability to utilize the NOLs of its state income tax reporting entities and concluded that no additional reduction to the U.S. state valuation allowance was required in 2015. These state income tax reporting entities include both combined unitary state income tax reporting entities and separate state income tax reporting entities in various jurisdictions. The Company analyzed the state net operating loss carry-forwards for each of these reporting entities to determine the amounts that are expected to expire unused. Based on this analysis, it was determined that the valuation allowance was still required on U.S. state DTAs on certain net operating loss carry-forwards. The Company retained a valuation allowance of $250 million against the DTA on the U.S. state NOLs at December 31, 2015.

The Company maintained a valuation allowance of $91 million against certain non-U.S. reporting entities net DTAs at December 31, 2015. The reduction from the prior year balance of $141 million was primarily attributable to the sale of various international entities resulting in the transfer of their respective DTAs and associated valuation allowances, and the write-off of approximately $28 million of DTAs for certain reporting entities due to the remote likelihood that they will ever utilize their respective DTAs. In January 2016, the Company sold its UK equipment leasing business. Thus, in the first quarter of 2016, there will be a reduction of approximately $70 million to the respective UK reporting entities net DTAs along with their associated valuation allowances. In the evaluation process related to the net DTAs of the Company s other international reporting entities, uncertainties surrounding the future international business operations have made it challenging to reliably project future taxable income. Management will continue to assess the forecast of future taxable income as the business plans for these international reporting entities evolve and evaluate potential tax planning strategies to utilize these net DTAs.

Post-2015, the Company s ability to recognize DTAs is evaluated on a quarterly basis to determine if there are any significant events that would affect our ability to utilize existing DTAs. If events are identified that affect our ability to utilize our DTAs, valuation allowances may be adjusted accordingly.

Management expects the 2016 global effective tax rate to be in the range of 30-35%. However, there will be a minimal impact on cash taxes paid until the related NOL carry-forward is fully utilized. In addition, while GAAP equity increased as a result of the recognition of net DTAs corresponding to the release of the aforementioned valuation allowances, there was minimal benefit on regulatory capital.

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

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RESULTS BY BUSINESS SEGMENT

SEGMENT REPORTING UPDATES

Operations of the acquired OneWest Bank are included with the activities within the NAB segment (previously North American Commercial Finance or NACF) and in a new segment, LCM. See *Background* for detailed summary of segment changes and *Note 2 Acquisition and Disposition Activities* and *Note 25 Business Segment Information* in *Item 8. Financial Statements and Supplementary Data*.

In conjunction with the OneWest Transaction, we changed our definition of AEA to include other revenue generating assets, such as interest-earning cash deposits, investments, and the newly acquired indemnification assets. These additional balances have grown in significance or are new due to the acquisition, and are now included in our determination of AEA, which impacts any metrics that include AEA in their calculation, such as net finance margin. Prior period balances and percentages have been updated to conform to the current period presentation.

With the announced changes to CIT management, along with the Company s exploration of alternatives for the commercial aerospace business, we will further refine our segment reporting effective January 1, 2016.

Note 25 Business Segment Information in *Item 8. Financial Statements and Supplementary Data* contains additional information relating to segment reporting.

North America Banking (NAB)

The NAB segment (the legacy CIT components of which were previously known as NACF, consists of five divisions: Commercial Banking, Commercial Real Estate, Commercial Services, Equipment Finance, and Consumer Banking. Revenue is generated from interest earned on loans, rents on equipment leased, fees and other revenue from lending and leasing activities, capital markets transactions and banking services, and commissions earned on factoring and related activities.

Commercial Banking (previously known as Corporate Finance) provides a range of lending and deposit products, as well as ancillary services, including cash management and advisory services, to small and medium size companies. Loans offered are primarily senior secured loans collateralized by accounts receivable, inventory, machinery & equipment and/or intangibles that are often used for working capital, plant expansion, acquisitions or recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. Loans are originated through direct relationships, led by individuals with significant experience in their respective industries, or through relationships with private equity sponsors. We provide financing to customers in a wide range of industries, including Commercial & Industrial, Communications & Technology Finance, Entertainment & Media, Energy, and Healthcare. The division also originates qualified Small Business Administration (SBA) 504 loans (generally, for buying a building, ground-up construction, building renovation, or the purchase of heavy machinery and equipment) and 7(a) loans (generally, for working capital or financing leasehold improvements). Additionally, the division offers a full suite of deposit and payment solutions to middle market companies and small businesses.

Commercial Real Estate provides senior secured commercial real estate loans to developers and other commercial real estate professionals. We focus on stable, cash flowing properties and originate construction loans to highly experienced and well capitalized developers. In addition, the OneWest Bank portfolio included multi-family mortgage loans that are being runoff.

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

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

Consumer Banking offers mortgage lending, deposits and private banking services to its customers. The division offers jumbo residential mortgage loans and conforming residential mortgage loans, primarily in Southern California. Mortgage loans are primarily originated through leads generated from the retail branch network, private bankers, and the commercial business units. Mortgage Lending includes product specialists, internal sales support and origination processing, structuring and closing. Retail banking is the primary deposit gathering business of the Bank and operates through retail branches and an online direct channel. We offer a broad range of deposit and lending products to meet the needs of our clients (both individuals and small businesses), including checking, savings, certificates of deposit, residential mortgage loans, and investment advisory services. We operate a network of 70 retail branches in Southern California. We also offer banking services to high net worth individuals.

NAB Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2015	**2014**	**2013**
Earnings Summary			
Interest income	$987.8	$832.4	$828.6
Rental income on operating leases	113.3	97.4	104.0
Finance revenue	1,101.1	929.8	932.6
Interest expense	(284.9)	(285.4)	(284.3)
Depreciation on operating lease equipment	(82.1)	(81.7)	(75.1)
Net finance revenue (NFR)	734.1	562.7	573.2
Provision for credit losses	(135.2)	(62.0)	(35.5)
Other income	267.9	318.0	306.5

	Years Ended December 31,		
Operating expenses	(660.7)	(499.7)	(479.5)
Income before provision for income taxes	$206.1	$319.0	$364.7
Select Average Balances			
Average finance receivables (AFR)	$18,974.1	$15,397.7	$14,040.4
Average earning assets (AEA)(1)	18,794.7	15,074.1	13,605.4
Statistical Data			
Net finance margin NFR as a % of AEA	3.91 %	3.73 %	4.21 %
Pretax return on AEA	1.10 %	2.12 %	2.68 %
New business volume	$7,523.2	$6,201.6	$6,244.9
Factoring volume	$25,839.4	$26,702.5	$25,712.2

(1) *AEA is lower than AFR as it is reduced by the average credit balances for factoring clients.*

As discussed below, 2015 operating results reflected a challenging lending environment and the impact of low interest rates. Business activity increased due to the acquisition of OneWest Bank in the third quarter. The 2015 results include five months of revenues and expenses associated with OneWest Bank, and the average balances include the acquired assets, which were not in the prior period activity and balances.

Pre-tax income declined from both 2014 and 2013, as higher credit costs associated with the new business volume and higher reserves related to the energy portfolio, along with lower interest recoveries, offset the benefits of higher earning assets. Trends are further discussed below.

Financing and leasing assets totaled $24.1 billion at December 31, 2015, up from $16.2 billion and $15.0 billion at December 31, 2014 and 2013, respectively, due primarily to the acquisition of OneWest Bank, which added approximately $8 billion of loans to NAB as of the acquisition date. Financing and leasing assets at December 31, 2015, totaled $10.0 billion in Commercial Banking, $5.2 billion in Equipment Finance, $5.4 billion in Commercial Real Estate, $2.1 billion in Commercial Services, and $1.4 billion in Consumer Banking. Included in the financing and leasing assets at December 31, 2015 were $1.2 billion that were held for sale, most of which related to the Canada portfolio.

New business volume was up from 2014 and 2013, reflecting increases in Equipment Finance and Commercial Real Estate. New business volume was down slightly in 2014 as the decline in Commercial Banking offset the benefit from the acquisition of Direct Capital and the increase in commercial real estate. Factoring volume was down from 2014, reflective of mix and market conditions.

The vast majority of the U.S. funded loan and lease volume in each of the periods presented was originated in the Bank. At December 31, 2015, 88% of this segment s financing and leasing assets were in the Bank, which was up from last year, reflecting the acquired assets from OneWest Bank in the Commercial Banking, Commercial Real Estate and Consumer Banking divisions.

New business yields on our commercial lending assets were down from the prior year, reflecting competitive pricing pressures. Also, yields on consumer loans, which were acquired during the year, are lower than commercial yields.

Highlights included:

- NFR increased from 2014 and 2013, as benefits from higher average earning assets and purchase accounting accretion of $72 million, related to the OneWest Bank acquisition, was partially offset by lower portfolio yields and a lower level of loan prepayments and interest recoveries. In 2015, asset levels continued to grow, especially driven by the third quarter acquisition. Loan prepayment activity slowed in 2015, and interest recoveries were below 2014. NFM was up from 2014, benefiting from the purchase accounting accretion.

- Gross yields were down from 2014 and 2013, mainly reflecting the impact of the acquired assets due to portfolio mix, along with continued pressures on yields, because new business yields were generally below maturing contracts. Gross yields did show some stabilization during the sequential quarters during 2015 in certain sectors, and also benefited from purchase

accounting accretion. See Select Segment and Division Margin Metrics table in Net Finance Revenue section.

- Other income was down from 2014 and 2013, reflecting the following:

- Factoring commissions of $117 million were down slightly from both prior years reflecting lower factoring volume and modest pressure on factoring commission rates due to changes in the portfolio mix and competition.

- Gains on asset sales (including receivables, equipment and investments) totaled $51 million in 2015, down from $89 million in 2014, and up from $47 million in 2013. Financing and Leasing assets sold totaled $1.1 billion in 2015, compared to $803 million in 2014 and $439 million in 2013. Gains will vary based on the type of assets sold. Over half of the volume sold occurred in the 2015 final quarter as we rebalanced assets post the OneWest Bank acquisition.

- Fee revenue is mainly driven by fees on lines of credit and letters of credit, capital markets-related fees, agent and advisory fees, and servicing fees for the assets we sell but retain servicing. As a result of the acquisition, banking related fees expanded and includes items such as cash management fees and account fees. As a result, fee revenue was $94 million in 2015, up from $81 million in 2014 and $82 million in 2013.

- Impairments on assets held for sale during 2015 totaled $21 million, primarily from transferring the Canada operations into assets held for sale, compared to $0.1 million in 2014 and none in 2013.

- Non-accrual loans increased to $201 million (0.88% of finance receivables), from $101 million (0.63%) at December 31, 2014 and $147 million (1.00%) at December 31, 2013. The percent did not increase in proportion to the increase in amount due to the additional assets acquired. Non-accruals on consumer accounts were less than $1 million. Non-accruals as a percent of commercial receivables was 0.95% at December 31, 2015. The $135 million provision for credit losses was up from 2014 and 2013, and reflect additional new business volume, reserve build on acquired receivables and higher reserves related to the energy portfolio. Net charge-offs were $111 million (0.58% of average finance receivables) for 2015, compared to $56 million (0.36%) in 2014 and $19 million (0.13%) in 2013. Net charge-offs include $46 million from assets transferred to held for sale in the current year, compared to $18 million in 2014 and $5 million in 2013. The increase reflects transfers to AHFS and sales in the fourth quarter related to portfolio rebalancing and transfer of the Canada portfolio to AHFS in the third quarter.

- The increases in operating expenses from 2014 and 2013 are primarily due to the inclusion of costs related to the acquired activities of OneWest Bank.

Transportation & International Finance (TIF)

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

Aerospace Commercial Air provides aircraft leasing, lending, asset management, and advisory services for commercial and regional airlines around the world. We own, finance and manage a fleet of approximately 386 aircraft and have about 100 clients in approximately 50 countries.

During 2015, management announced it was exploring strategic alternatives for the Commercial Aerospace business, which may be structured as a spinoff or sale.

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

Rail leases railcars and locomotives to railroads and shippers throughout North America and Europe. Our operating lease fleet consists of over 128,000 railcars and 390 locomotives and we serve over 650 customers.

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

International Finance offers equipment financing, secured lending and leasing to small and middle-market businesses in China and the U.K., both of which were in assets held-for-sale at December 31, 2015. The U.K. portfolio was sold in January 2016.

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

	Years Ended December 31,		
	2015	**2014**	**2013**
Earnings Summary			
Interest income	$285.4	$289.4	$254.9
Rental income on operating leases	2,021.7	1,959.9	1,682.4
Finance revenue	2,307.1	2,249.3	1,937.3
Interest expense	(645.6)	(650.4)	(585.5)
Depreciation on operating lease equipment	(558.4)	(519.6)	(433.3)
Maintenance and other operating lease expenses	(231.0)	(196.8)	(163.0)
Net finance revenue (NFR)	872.1	882.5	755.5
Provision for credit losses	(20.3)	(38.3)	(18.7)
Other income	97.1	69.9	82.2

	Years Ended December 31,		
Operating expenses/loss on debt extinguishments	(293.8)	(301.9)	(255.3)
Income before provision for income taxes	$655.1	$612.2	$563.7
Select Average Balances			
Average finance receivables (AFR)	$3,591.3	$3,571.2	$3,078.9
Average operating leases (AOL)	15,027.8	14,255.7	12,195.8
Average earning assets (AEA)	20,321.6	19,330.7	16,359.7
Statistical Data			
Net finance margin NFR as a % of AEA	4.29 %	4.57 %	4.62 %
Net operating lease revenue rental income, net of depreciation and maintenance and other operating lease expenses	$1,232.3	$1,243.5	$1,086.1
Operating lease margin as a % of AOL	8.20 %	8.72 %	8.91 %
Pretax return on AEA	3.22 %	3.17 %	3.45 %
New business volume	$4,282.9	$5,015.0	$3,578.0

Results for 2015 reflect asset growth in our transportation divisions, higher costs associated with the air and rail operating lease portfolios, higher other income, continued low credit costs and mixed utilization rates of our aircraft and railcars. Results are discussed further below.

We grew financing and leasing assets during 2015, further expanding our aircraft and railcar fleets, and continued building our maritime finance portfolio. Financing and leasing assets grew to $20.8 billion at December 31, 2015, up from $19.0 billion at December 31, 2014 and $16.4 billion at December 31, 2013, as discussed in the following paragraphs.

Aerospace financing and leasing assets grew to $11.6 billion from $11.1 billion at December 31, 2014 and $9.7 billion at December 31, 2013. Our owned operating lease commercial portfolio included 284 aircraft, up slightly from December 31, 2014 and 2013, as the purchase of 28 aircraft in 2015, which included 18 order book deliveries, were offset by sales of 23 aircraft, including 10 aircraft sold to TC-CIT Aviation, our joint venture. At December 31, 2015, we manage 24 aircraft for the joint venture. At December 31, 2015, we had 139 aircraft on order from manufacturers, with deliveries scheduled through 2020. See *Note 21 Commitments* in *Item 8. Financial Statements and Supplementary Data* and *Concentrations* for further aircraft manufacturer commitment data.

Rail financing and leasing assets grew to $6.7 billion from $5.8 billion at December 31, 2014 and $4.6 billion at December 31, 2013. We expanded our owned operating lease portfolio by approximately 8,000 railcars during 2015 to over 128,000 at December 31, 2015, reflecting scheduled deliveries from our order book and a portfolio acquisition of approximately 900 railcars in the U.K. in the 2015 first quarter. Our owned portfolio approximated 120,000 and 106,000 railcars at December 31, 2014 and 2013, respectively. The 2014 growth in assets and railcars included the impact of the Nacco acquisition, an independent full service railcar lessor in Europe. The purchase included approximately $650 million of assets (operating lease equipment), comprised of more than 9,500 railcars. Absent acquisitions, rail assets are primarily originated through purchase commitments with manufacturers and are also supplemented by spot purchases. At December 31, 2015, we had approximately 6,800 railcars on order from manufacturers, with deliveries scheduled through 2018. See *Note 21 Commitments* in *Item 8. Financial Statements and Supplementary Data* and *Concentrations* for further railcar manufacturer commitment data.

Maritime Finance financing and leasing assets totaled $1.7 billion, up from $1.0 billion at December 31, 2014 and $0.4 billion at December 31, 2013;

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International Finance financing and leasing assets decreased to $0.8 billion, from $1.0 billion at December 31, 2014 and $1.7 billion at December 31, 2013. The 2015 decrease reflects portfolio paydowns while the 2014 decline primarily reflected the sale of the U.K. corporate lending portfolio. All international finance and leasing assets were held for sale at December 31, 2015 and included approximately $0.4 billion related to a U.K. portfolio of equipment finance assets, which were sold in January 2016. The balance consists of our China portfolio.

Highlights included:

- NFR was down slightly from 2014, as asset growth and lower funding costs were offset by yield compression and higher operating lease equipment expenses. Portfolio growth and lower funding costs in 2014 contributed to the higher NFR over 2013. See *Select Segment and Division Margin Metrics* table in *Net Finance Revenue* section.

- Gross yields (interest income plus rental income on operating leases as a % of AEA) decreased from 2014 and 2013, reflecting lower rental rates on certain aircraft and lower utilization in rail. See Select Segment and Division Margin Metrics table in Net Finance Revenue section.

- Net operating lease revenue, which is a component of NFR, decreased slightly from 2014, as increased rental income from growth in Aerospace and Rail divisions was offset by higher depreciation and maintenance and operating lease expenses. Maintenance and other operating lease expenses primarily relate to the rail portfolio and to a lesser extent aircraft re-leasing. Maintenance and other operating lease expenses was up reflecting elevated transition costs on several aircraft, increased maintenance, freight and storage costs in rail, and growth in the portfolios. Net operating lease revenue also reflects trends in equipment utilization with aircraft utilization improving in the second half of 2015 and railcar utilization declining, a trend that is expected to continue into 2016 due to weakness in demand for certain energy related car types. The decline in the operating lease margin (as a percentage of average operating lease equipment) reflects these trends. Net operating lease revenue increased in 2014 compared to 2013, driven by growth, while operating lease margin declined due to pressure on renewal rates on certain aircraft.

- Equipment utilization for commercial aerospace has been consistently strong over the 3-year period, and at December 31, 2015, all aircraft were on lease or under a commitment. Rail utilization rates strengthened during 2013 through 2014, before beginning to decline in 2015, reflecting pressures mostly from energy related industries. Rail utilization declined from 99% at December 31, 2014 to 96% at December 31, 2015 and further decline is expected.

- 2015 new business volume included $2.7 billion of operating lease equipment, including the delivery of 23 aircraft and approximately 9,250 railcars, and $1.6 billion of finance receivables. The 2015 volume was supplemented by a U.K. rail portfolio purchase, which added approximately 900 railcars and approximately $85 million of assets. New business volume for 2014 primarily included the delivery of 37 aircraft and approximately 6,000 railcars, with the vast majority of the rail operating lease volume originated by the Bank, and $2.2 billion of finance receivables. New business volume for 2013 primarily reflected the delivery of 24 aircraft and approximately 5,400 railcars. We have 15 new aircraft deliveries scheduled for 2016, all of which have lease commitments with customers. Approximately 55% of the total railcar order-book have lease commitments.

- Other income primarily reflected the following:

- Gains on asset sales totaled $75 million in 2015 on $980 million of asset sales, $78 million on $1.3 billion of equipment and receivable sales, and $82 million of gains on $978 million of asset sales in 2013. Gains in 2015 and 2014 include $12 million and $30 million, respectively, on the sale of aircraft to the TC-CIT Aviation joint ventures.

- Impairment charges on AHFS totaled $16 million and $31 million in 2015 and 2014, respectively, and predominantly related to international portfolios and commercial aircraft, compared to $19 million in 2013, mostly related to commercial aircraft.

- Other income also includes a small amount of fees and other revenue derived from loan commitments, joint ventures and other business activities, as well as periodic items such as a benefit from the termination of a defaulted contract recognized in the prior quarter. Other income included a $13 million benefit related to a work-out related claim in 2013.

- Non-accrual loans were $62 million (1.75% of finance receivables) at December 31, 2015, compared to $37 million (1.05%) at December 31, 2014 and $35 million (1.01%) at December 31, 2013 and largely consists of assets in the international portfolio. The provision for credit losses decreased as the elimination of reserves on international assets transferred to AHFS offset reserve build in Maritime. Net charge-offs were $27 million (0.75% of average finance receivables) in 2015, down from $38 million (1.06%) and up from $17 million (0.55%) in 2014 and 2013, respectively. Essentially all of the charge-offs for 2015, 2014 and 2013 were concentrated in the International portfolio. TIF charge-offs in 2015 and 2014 included approximately $27 million and $18 million related to the transfer of receivables to assets held for sale (amounts for 2013 were not significant).

- Operating expenses were down slightly from 2014, and improved as percentages of AEA and total net revenue. Operating expenses increased from 2013, reflecting investments in new initiatives and growth in existing businesses, including the Nacco rail acquisition in 2014.

Legacy Consumer Mortgages

LCM resulted from the OneWest Transaction; therefore, there are no prior period comparisons. As discussed below, our 2015 operating results reflect five months of revenues and expenses associated with the OneWest Transaction. The Consumer Covered Loans in this segment were previously acquired by OneWest Bank in connection with the lndyMac, First Federal and La Jolla transactions described in the *OneWest Transaction* Indemnification Assets section. The FDIC indemnified OneWest Bank against certain future losses sustained on these loans. In conjunction with the OneWest Transaction, CIT may now be reimbursed for losses under the terms of the loss sharing agreements with the FDIC. Eligible losses are submitted to the FDIC for reimbursement

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when a qualifying loss event occurs (e.g., liquidation of collateral). Reimbursements approved by the FDIC are usually received within 60 days of submission.

See *Note 1 Business and Summary of Significant Accounting Policies* and *Note 5 Indemnification Assets* in *Item 8.*

Financial Statements and Supplementary Data for accounting and detailed discussions.

The following table presents the financial data and metrics since the acquisition on August 3, 2015.

Legacy Consumer Mortgages Financial Data and Metrics (dollars in millions)

	Year Ended December 31, 2015
Earnings Summary	
Interest income	$ 152.9
Interest expense	(35.1)
Net finance revenue (NFR)	117.8
Provision for credit losses	(5.0)
Other income	0.4
Operating expenses	(42.9)
Income before provision for income taxes	$ 70.3
Select Average Balances	
Average finance receivables (AFR)	$ 2,308.9
Average earning assets (AEA)	$ 2,483.5
Statistical Data	
Net finance margin NFR as a % of AEA	4.74%

LCM includes the single family residential mortgage loans and reverse mortgage loans acquired in the OneWest Bank acquisition. Pretax results reflect activity since the acquisition date, August 3, 2015.

Revenue is primarily generated from interest on loans and includes $52 million of PAA accretion. Gross yield for the portfolio was 6.16% for the period of ownership. Other income included pre-acquisition recoveries and fee revenue, partially offset by $5 million of losses on OREO sales.

Financing and leasing assets totaled $5.7 billion at the acquisition date, and declined slightly to $5.5 billion at December 31, 2015. LCM includes SFR mortgage loans, totaling $4.6 billion at December 31, 2015, and reverse mortgage loans totaling $0.9 billion. Approximately $5 billion of the LCM receivables are covered by loss share arrangements with the FDIC, resulting in an indemnification asset of approximately $415 million at December 31, 2015, of which approximately $65 million resided with Corporate and Other. The portfolio will continue to run-off, and as a result, at some point, we expect goodwill impairment charges will need to be recorded.

Non-accrual loans totaled $5 million and related to SFR loans and there were less than $1 million in net charge-offs. The loans were recorded at fair value upon acquisition, with no associated allowance for loan loss. The provision reflected changes in portfolio quality, along with extensions of credit for existing customers since the acquisition.

Non-Strategic Portfolios (NSP)

NSP consists of portfolios that we no longer consider strategic, all of which were sold as of December 31, 2015.

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

	Years Ended December 31,

	Years Ended December 31,		
	2015	2014	2013
Earnings Summary			
Interest income	$33.6	$90.5	$157.2
Rental income on operating leases	17.5	35.7	111.0
Finance revenue	51.1	126.2	268.2
Interest expense	(29.3)	(82.1)	(130.2)
Depreciation on operating lease equipment		(14.4)	(32.2)
Maintenance and other operating lease expenses			(0.1)
Net finance revenue (NFR)	21.8	29.7	105.7
Provision for credit losses		0.4	(10.8)
Other income	(89.4)	(57.6)	(14.6)
Operating expenses	(33.4)	(74.6)	(143.1)
Loss before provision for income taxes	$(101.0)	$(102.1)	$(62.8)
Select Average Balances			
Average finance receivables (AFR)	$	$151.2	$1,128.6
Average earning assets (AEA)	358.8	1,192.2	2,101.0
Statistical Data			
Net finance margin NFR as a % of AEA	6.08 %	2.49 %	5.03 %
New business volume	$83.3	$216.5	$713.0

Item 7: Management s Discussion and Analysis

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Pre-tax losses in 2015 were driven by currency translation adjustment losses resulting from the sales of the Brazil and Mexico operations and associated portfolios. Pretax losses in 2014 reflected lower asset levels from reduced business activity and lower other income, while 2013 pre-tax results were also impacted by accelerated debt FSA and OID accretion of $5 million, reflecting debt prepayment activities.

Financing and leasing assets were reduced to zero during 2015, due to the closing of the Mexico and Brazil sales. Financing and leasing assets were $380 million at December 31, 2014 and $1.3 billion at December 31, 2013. The 2014 year decline reflected the exit from all the sub-scale countries in Asia and Europe, and several in Latin America, as well as our SBL portfolio. During 2013, we completed the sale of the Dell Europe portfolio, approximately $470 million of financing and leasing assets, as well as certain other foreign portfolios.

Highlights included:

- Net finance revenue (NFR) was down, driven by lower earning assets. There was minimal net FSA accretion in 2015 and 2014, while NFR included total net FSA accretion costs of $20 million in 2013.

- Other income declined from the prior years, reflecting:

- Losses of $65 million (of which $70 million related to CTA losses) on $266 million of receivable and equipment sales, reflecting sales of the Mexico and Brazil portfolios in 2015. A gain of $1 million on $483 million of receivable and equipment sales in 2014, which included approximately $340 million of assets related to the SBL portfolio. Gains totaled $57 million on $656 million of receivable and equipment sales in 2013, which included approximately $470 million of assets related to the Dell Europe portfolio sale.

- Impairment charges recorded on international equipment finance portfolios and operating lease equipment held for sale. Total impairment charges were $23 million for 2015, compared to $70 million and $105 million for 2014 and 2013, respectively. See *Non-interest Income* and *Expenses* for discussions on impairment charges and suspended depreciation on operating lease equipment held for sale.

- The remaining balance mostly includes fee revenue, recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale and other revenues. Fee revenue in 2014 and 2013 included servicing fees related to the small business lending portfolio, which totaled $5 million and $11 million, respectively.

- Operating expenses were down, primarily reflecting lower cost due to sales.

Corporate and Other

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

Corporate and Other Financial Data (dollars in millions)

	Years Ended December 31,		
	2015	**2014**	**2013**
Earnings Summary			
Interest income	$53.2	$14.2	$14.5
Interest expense	(108.6)	(68.3)	(60.9)
Net finance revenue (NFR)	(55.4)	(54.1)	(46.4)
Provision for credit losses		(0.2)	0.1
Other income	(56.5)	(24.9)	7.2
Operating expenses	(138.6)	(65.6)	(92.3)
Loss on debt extinguishments	(1.5)	(3.5)	
Loss before provision for income taxes	$(252.0)	$(148.3)	$(131.4)

- Interest income consists of interest and dividend income, primarily from investment securities and deposits held at other depository institutions. The 2015 increase reflects additional income from the OneWest Bank acquisition and the investment portfolio now includes a MBS portfolio.

- Interest expense is allocated to the segments. Interest expense held in Corporate represents amounts in excess of these allocations and amounts related to excess liquidity.

- Other income primarily reflects gains and (losses) on derivatives, including the GSI facilities and foreign currency exchange. The GSI derivative had a negative mark-to-market of $30 million in 2015, $15 million in 2014 and $4 million in 2013. 2015 also included $9 million related to a write-off of other receivables in connection with the favorable resolution of an uncertain tax position.

- Operating expenses reflects salary and general and administrative expenses in excess of amounts allocated to the business segments and litigation-related costs, including $50 million in 2013 related to the Tyco tax agreement settlement. Operating expense were elevated in 2015 reflecting closing costs and restructuring charges related to the OneWest Bank acquisition. Operating expenses also included $58 million, $31 million and $37 million related to provision for severance and facilities exiting activities during 2015, 2014 and 2013, respectively.

FINANCING AND LEASING ASSETS

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

Financing and Leasing Asset Composition (dollars in millions)

	December 31,				
	2015	**2014**	**2013**	**$ Change 2015 vs 2014**	**$ Change 2014 vs 2013**
North America Banking					
Loans	$22,701.1	$15,936.0	$14,693.1	$ 6,765.1	$ 1,242.9
Operating lease equipment, net	259.0	265.2	240.5	(6.2)	24.7
Assets held for sale	1,162.2	22.8	38.2	1,139.4	(15.4)
Financing and leasing assets	24,122.3	16,224.0	14,971.8	7,898.3	1,252.2
Commercial Banking					
Loans	9,443.4	6,889.9	6,831.8	2,553.5	58.1
Operating lease equipment, net			6.2		(6.2)
Assets held for sale	538.8	22.8	38.2	516.0	(15.4)
Financing and leasing assets	9,982.2	6,912.7	6,876.2	3,069.5	36.5
Equipment Finance					
Loans	4,377.5	4,717.3	4,044.1	(339.8)	673.2
Operating lease equipment, net	259.0	265.2	234.3	(6.2)	30.9
Assets held for sale	562.5			562.5	
Financing and leasing assets	5,199.0	4,982.5	4,278.4	216.5	704.1
Commercial Real Estate					
Loans	5,305.6	1,768.6	1,554.8	3,537.0	213.8
Assets held for sale	57.0			57.0	
Financing and leasing assets	5,362.6	1,768.6	1,554.8	3,594.0	213.8
Commercial Services					
Loans and factoring receivables	2,132.5	2,560.2	2,262.4	(427.7)	297.8
Consumer Banking					
Loans	1,442.1			1,442.1	

	December 31,				
Assets held for sale	3.9			3.9	
Financing and leasing assets	1,446.0			1,446.0	
Transportation & International Finance					
Loans	3,542.1	3,558.9	3,494.4	(16.8)	64.5
Operating lease equipment, net	16,358.0	14,665.2	12,778.5	1,692.8	1,886.7
Assets held for sale	889.0	815.2	158.5	73.8	656.7
Financing and leasing assets	20,789.1	19,039.3	16,431.4	1,749.8	2,607.9
Aerospace					
Loans	1,762.3	1,796.5	1,247.7	(34.2)	548.8
Operating lease equipment, net	9,765.2	8,949.5	8,267.9	815.7	681.6
Assets held for sale	34.7	391.6	148.8	(356.9)	242.8
Financing and leasing assets	11,562.2	11,137.6	9,664.4	424.6	1,473.2
Rail					
Loans	120.9	130.0	107.2	(9.1)	22.8
Operating lease equipment, net	6,592.8	5,715.2	4,503.9	877.6	1,211.3
Assets held for sale	0.7	1.2	3.3	(0.5)	(2.1)
Financing and leasing assets	6,714.4	5,846.4	4,614.4	868.0	1,232.0
Maritime Finance					
Loans	1,658.9	1,006.7	412.6	652.2	594.1
Assets held for sale	19.5	19.7		(0.2)	19.7
Financing and leasing assets	1,678.4	1,026.4	412.6	652.0	613.8
International Finance					
Loans		625.7	1,726.9	(625.7)	(1,101.2)
Operating lease equipment, net		0.5	6.7	(0.5)	(6.2)
Assets held for sale	834.1	402.7	6.4	431.4	396.3
Financing and leasing assets	834.1	1,028.9	1,740.0	(194.8)	(711.1)

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

	December 31,				
	2015	**2014**	**2013**	**$ Change 2015 vs 2014**	**$ Change 2014 vs 2013**
Legacy Consumer Mortgages					
Loans	5,428.5			5,428.5	
Assets held for sale	41.2			41.2	
Financing and leasing assets	5,469.7			5,469.7	

	December 31,				
Single Family Mortgages					
Loans	4,531.2			4,531.2	
Assets held for sale	21.1			21.1	
Financing and leasing assets	4,552.3			4,552.3	
Reverse Mortgages					
Loans	897.3			897.3	
Assets held for sale	20.1			20.1	
Financing and leasing assets	917.4			917.4	
Non-Strategic Portfolios					
Loans		0.1	441.7	(0.1)	(441.6)
Operating lease equipment, net			16.4		(16.4)
Assets held for sale		380.1	806.7	(380.1)	(426.6)
Financing and leasing assets		380.2	1,264.8	(380.2)	(884.6)
Total financing and leasing assets	$50,381.1	$35,643.5	$32,668.0	$14,737.6	$2,975.5

Financing and leasing assets grew significantly in 2015, reflecting the OneWest Transaction, which included $13.6 billion of loans at the acquisition date and the following:

TIF growth in 2015 included each of the transportation divisions, as we increased our commercial aircraft and rail portfolios, and grew our maritime finance business. Growth was partially offset by lower financing and leasing assets in International Finance, as those portfolios have been deemphasized and were included in AHFS. Growth in TIF during 2014 was driven by the transportation divisions, reflecting solid new business volume, and was supplemented by the acquisition of Nacco that added approximately $650 million of operating lease equipment. Assets held for sale at December 31, 2015 largely consists of the U.K. equipment finance portfolio, which was sold on January 1, 2016, and the China loan portfolio.

NAB grew significantly, reflecting the OneWest Bank acquisition. Portfolios were added to Commercial Banking and Commercial Real Estate, while a new Consumer Banking division was added and includes mortgage loan products. Absent the acquisition, new business originations was offset by sales of select assets, mostly in the final quarter of 2015 as we rebalanced our portfolio, portfolio collections and prepayments, and lower factoring receivables in Commercial Services. Growth in NAB in 2014 was led by Equipment Finance, which included the acquisition of Direct Capital that increased loans by approximately $540 million at the time of acquisition in the third quarter. Commercial Services and Real Estate Finance grew in 2014. Assets held for sale primarily reflect the Canada portfolio.

LCM is a new segment that includes consumer covered loans comprised of SFRs and reverse mortgages that were acquired in the OneWest Bank acquisition. The balance is down slightly from the acquisition date as this segment is running off.

The decline in NSP primarily reflected the sales of the Mexico business in the third quarter and the Brazil business in the fourth quarter. The 2014 decline in NSP primarily reflected sales, which included the remaining SBL portfolio.

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

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The following table reflects the contractual maturities of our finance receivables, which excludes certain items such as purchase accounting adjustments discounts.

Contractual Maturities of Loans at December 31, 2015 (dollars in millions)

	Commercial		Consumer		
	U.S.	**Foreign**	**U.S.**	**Foreign**	**Total**
Fixed-rate					
1 year or less	$3,401.8	$130.7	$73.2	$0.1	$3,605.8
Year 2	1,207.2	38.8	53.9	0.1	1,300.0
Year 3	869.6	32.8	55.8	0.2	958.4
Year 4	469.4	92.4	56.5	0.2	618.5
Year 5	331.2	24.9	58.4	0.2	414.7
2-5 years	2,877.4	188.9	224.6	0.7	3,291.6
After 5 years	364.1	188.9	2,559.4	2.2	3,114.6
Total fixed-rate	6,643.3	508.5	2,857.2	3.0	10,012.0
Adjustable-rate					
1 year or less	3,181.6	350.4	94.6	0.1	3,626.7
Year 2	2,632.8	398.2	85.2	0.1	3,116.3
Year 3	2,899.5	391.1	113.4	0.1	3,404.1
Year 4	2,516.2	533.0	117.8	0.2	3,167.2
Year 5	1,723.6	395.1	121.3	0.2	2,240.2
2-5 years	9,772.1	1,717.4	437.7	0.6	11,927.8
After 5 years	2,577.8	435.9	5,093.7	11.8	8,119.2
Total adjustable-rate	15,531.5	2,503.7	5,626.0	12.5	23,673.7
Total	$22,174.8	$3,012.2	$8,483.2	$15.5	$33,685.7

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

Financing and Leasing Assets Rollforward (dollars in millions)

	Transportation & International Finance	North America Banking	Legacy Consumer Mortgages	Non-Strategic Portfolios	Total

	Transportation & International Finance	North America Banking	Legacy Consumer Mortgages	Non-Strategic Portfolios	Total
Balance at December 31, 2012	$ 14,908.1	$ 13,277.4	$	$ 2,024.1	$30,209.6
New business volume	3,578.0	6,244.9		713.0	10,535.9
Portfolio / business purchases	154.3	720.4			874.7
Loan and portfolio sales	(103.2)	(129.4)		(621.0)	(853.6)
Equipment sales	(874.8)	(309.5)		(34.8)	(1,219.1)
Depreciation	(433.3)	(75.1)		(32.2)	(540.6)
Gross charge-offs	(26.0)	(58.3)		(54.3)	(138.6)
Collections and other	(771.7)	(4,698.6)		(730.0)	(6,200.3)
Balance at December 31, 2013	16,431.4	14,971.8		1,264.8	32,668.0
New business volume	5,015.0	6,201.6		216.5	11,433.1
Portfolio / business purchases	649.2	536.6			1,185.8
Loan and portfolio sales	(474.1)	(460.6)		(454.2)	(1,388.9)
Equipment sales	(780.5)	(342.1)		(28.3)	(1,150.9)
Depreciation	(519.6)	(81.7)		(14.4)	(615.7)
Gross charge-offs	(44.8)	(75.2)		(7.5)	(127.5)
Collections and other	(1,237.3)	(4,526.4)		(596.7)	(6,360.4)
Balance at December 31, 2014	19,039.3	16,224.0		380.2	35,643.5
New business volume	4,282.9	7,523.2		83.3	11,889.4
Portfolio / business purchases	94.8	7,860.7	5,725.3		13,680.8
Loan and portfolio sales	(85.3)	(791.2)		(260.2)	(1,136.7)
Equipment sales	(894.5)	(263.7)		(5.4)	(1,163.6)
Depreciation	(558.4)	(82.1)			(640.5)
Gross charge-offs	(35.3)	(129.5)	(1.2)		(166.0)
Collections and other	(1,054.4)	(6,219.1)	(254.4)	(197.9)	(7,725.8)
Balance at December 31, 2015	$ 20,789.1	$ 24,122.3	$ 5,469.7	$	$50,381.1

As discussed in the OneWest Transaction section, financing and leasing assets acquired in the OneWest Transaction are reflected in NAB ($7.9 billion) and LCM ($5.7 billion) as of the acquisition date.

New business volume in 2015 decreased in TIF from the year-ago, mostly driven by fewer scheduled aircraft deliveries. Increase in NAB new business volumes were driven by Equipment Finance (which included a full year of Direct Capital) and Commercial Real Estate, mainly due to the OneWest Bank acquisition. New business volume in 2014 increased 9% from 2013, reflecting solid demand for TIF and NAB products and services. TIF 2014 new business volume primarily reflects scheduled aircraft and railcar deliveries, and increased maritime finance lending. NAB maintained its strong performance from 2013. New business volume was down slightly in NAB, as the decline in Commercial Banking activity, mostly in the commercial and industrial industries, offset the increase in Equipment Finance, which included solid activity from Direct Capital. NSP was down each year as these international platforms were being sold.

Portfolio/business purchases in 2015 included the OneWest Bank acquisition in NAB and Rail portfolios purchased by Nacco. 2014 activity included Nacco in TIF and Direct Capital in NAB during 2014 and a commercial loan portfolio in NAB and a portfolio in TIF during 2013.

Loan and portfolio sales in 2015 primarily were in NAB including approximately $0.6 billion in the fourth quarter as we rebalanced assets post the OneWest Bank acquisition. NSP sales reflect the sale of the Mexico and Brazil businesses. Loan and portfolio sales in TIF during 2014 reflect international portfolios, while NAB had various loan sales throughout the year and NSP sales primarily consisted of the small business loan portfolio, along with some international portfolios. NSP 2013 activity reflected sales of certain international platforms and approximately $470 million of Dell Europe receivables.

Equipment sales in TIF consisted of aerospace and rail assets in conjunction with its portfolio management activities. The balances in 2015 and 2014 also reflect aircraft sales to the TC-CIT Aviation joint venture. NAB sales reflect assets within Equipment Finance and Commercial Banking, while NSP sales included operating lease equipment in the various international platforms sold over the years, and 2013 included the sale of Dell Europe assets.

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

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CONCENTRATIONS

Geographic Concentrations

The following table represents CIT s combined commercial and consumer financing and leasing assets by obligor geography:

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

	December 31, 2015		December 31, 2014		December 31, 2013	
West	$12,208.3	24.2 %	$3,183.1	8.9 %	$3,238.6	9.9 %
Northeast	9,383.2	18.6 %	6,552.0	18.4 %	5,933.1	18.2 %
Southwest	4,785.5	9.5 %	3,852.8	10.8 %	3,606.9	11.1 %
Southeast	4,672.3	9.3 %	3,732.9	10.5 %	2,690.2	8.2 %
Midwest	4,446.3	8.8 %	3,821.6	10.7 %	3,762.5	11.5 %
Total U.S.	35,495.6	70.4 %	21,142.4	59.3 %	19,231.3	58.9 %
Asia / Pacific	5,312.0	10.6 %	5,290.9	14.8 %	4,237.4	13.0 %
Europe	3,283.3	6.5 %	3,296.4	9.3 %	3,692.4	11.3 %
Canada	2,612.6	5.2 %	2,520.6	7.1 %	2,287.0	7.0 %
Latin America	1,508.3	3.0 %	1,651.7	4.6 %	1,743.1	5.3 %
All other countries	2,169.3	4.3 %	1,741.5	4.9 %	1,476.8	4.5 %
Total	$50,381.1	100.0%	$35,643.5	100.0%	$32,668.0	100.0%

Ten Largest Accounts

Our ten largest financing and leasing asset accounts, the vast majority of which are lessors of air and rail assets, in the aggregate represented 8.1% of our total financing and leasing assets at December 31, 2015 (the largest account was less than 2.0%). While the top exposure balance may not have changed significantly, the decline in proportion reflects the additional financing and leasing assets from the OneWest Transaction.

The ten largest financing and leasing asset accounts were 11.1% at December 31, 2014 and 9.8% at December 31, 2013.

COMMERCIAL CONCENTRATIONS

Geographic Concentrations

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

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

	December 31, 2015		December 31, 2014		December 31, 2013	
Northeast	$8,169.4	18.8 %	$6,552.0	18.4 %	$5,933.1	18.2 %
West	7,456.1	17.1 %	3,183.1	8.9 %	3,238.6	9.9 %
Southwest	4,669.1	10.7 %	3,852.8	10.8 %	3,606.9	11.1 %
Midwest	4,193.5	9.7 %	3,821.6	10.7 %	3,762.5	11.5 %
Southeast	4,117.4	9.5 %	3,732.9	10.5 %	2,690.2	8.2 %
Total U.S.	28,605.5	65.8 %	21,142.4	59.3 %	19,231.3	58.9 %
Asia / Pacific	5,311.2	12.2 %	5,290.9	14.8 %	4,237.4	13.0 %
Europe	3,278.5	7.5 %	3,296.4	9.3 %	3,692.4	11.3 %
Canada	2,604.3	6.0 %	2,520.6	7.1 %	2,287.0	7.0 %
Latin America	1,507.9	3.5 %	1,651.7	4.6 %	1,743.1	5.3 %
All other countries	2,167.1	5.0 %	1,741.5	4.9 %	1,476.8	4.5 %
Total	$43,474.5	100.0%	$35,643.5	100.0%	$32,668.0	100.0%

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

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

	December 31, 2015		December 31, 2014		December 31, 2013	
State						
California	$5,311.1	12.2%	$1,488.0	4.2 %	$1,609.6	4.9 %
Texas	3,989.9	9.2 %	3,261.4	9.1 %	3,022.4	9.3 %
New York	2,870.7	6.6 %	2,492.3	7.0 %	2,323.3	7.1 %
All other states	16,433.8	37.8%	13,900.7	39.0%	12,276.0	37.6%
Total U.S.	$28,605.5	65.8%	$21,142.4	59.3%	$19,231.3	58.9%
Country						
Canada	$2,604.3	6.0 %	$2,520.6	7.1 %	$2,287.0	7.0 %

	December 31, 2015		December 31, 2014		December 31, 2013	
China	982.6	2.3 %	1,043.7	2.9 %	969.1	2.9 %
U.K.	949.8	2.2 %	855.3	2.4 %	1,166.5	3.6 %
Marshall Islands	882.0	2.0 %	682.2	1.9 %	269.2	0.8 %
Australia	842.9	1.9 %	1,029.1	2.9 %	974.4	3.0 %
Mexico	676.0	1.6 %	670.7	1.9 %	819.9	2.5 %
Spain	560.1	1.3 %	339.4	1.0 %	450.7	1.4 %
Philippines	485.7	1.1 %	511.3	1.4 %	255.9	0.8 %
All other countries	6,885.6	15.8%	6,848.8	19.2%	6,244.0	19.1%
Total International	$14,869.0	34.2%	$14,501.1	40.7%	$13,436.7	41.1%

Cross-Border Transactions

Cross-border transactions reflect monetary claims on borrowers domiciled in foreign countries and primarily include cash deposited with foreign banks and receivables from residents of a foreign country, reduced by amounts funded in the same currency and recorded in the same jurisdiction. The following table includes all countries that we have cross-border claims of 0.75% or greater of total consolidated assets at December 31, 2015:

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

	2015						2014		2013
Country	Banks(**)	Government	Other	Net Local Country Claims	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure	Exposure as a Percentage of Total Assets	Total Exposure
Canada	$9.0	$	$122.0	$839.0	$970.0	1.44%	$1,397.0	2.92%	$1,784.0
United Kingdom	453.0		68.0	383.0	904.0	1.34%	1,129.0	2.36%	1,317.0
Marshall Islands			812.0		812.0	1.20%	687.0	1.43%	
China			104.0	574.0	678.0	1.00%	853.0	1.78%	881.0
France					(*)		426.0	0.89%	586.0
Germany					(*)		(*)		442.0
Mexico					(*)				406.0

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

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

Industry Concentrations

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

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

	December 31, 2015		December 31, 2014		December 31, 2013	
Commercial airlines (including regional airlines)[1]	$10,728.3	24.7 %	$10,313.7	28.9 %	$8,972.4	27.5 %
Manufacturing[2]	4,951.3	11.4 %	4,702.6	13.2 %	4,311.9	13.2 %
Real Estate	4,895.4	11.3 %	1,590.5	4.5 %	1,351.4	4.1 %
Transportation[3]	4,586.5	10.5 %	3,361.7	9.5 %	2,515.9	7.7 %
Service industries	3,441.2	7.9 %	2,553.6	7.2 %	3,123.4	9.6 %
Retail[4]	2,513.4	5.8 %	3,187.8	8.9 %	3,063.1	9.4 %
Wholesale	2,310.5	5.3 %	1,710.3	4.8 %	1,394.1	4.3 %
Energy and utilities	2,091.5	4.8 %	1,513.2	4.2 %	1,384.6	4.2 %
Oil and gas extraction / services	1,871.0	4.3 %	1,483.4	4.2 %	1,157.1	3.5 %
Healthcare	1,223.4	2.8 %	1,159.7	3.3 %	1,393.1	4.3 %
Finance and insurance	1,128.2	2.6 %	782.9	2.2 %	787.0	2.4 %
Other (no industry greater than 2%)	3,733.8	8.6 %	3,284.1	9.1 %	3,214.0	9.8 %
Total	$43,474.5	100.0%	$35,643.5	100.0%	$32,668.0	100.0%

(1) *Includes the Commercial Aerospace Portfolio and additional financing and leasing assets that are not commercial aircraft.*

(2) *At December 31, 2015, manufacturers of chemicals, including pharmaceuticals (2.6%), petroleum and coal, including refining (1.7%) and food (1.1%).*

(3) *At December 31, 2015, includes maritime (4.2%), rail (4.0%) and trucking and shipping (1.2%).*

(4) *At December 31, 2015 includes retailers of apparel (1.3%) and general merchandise (1.6%).*

Energy

As part of the OneWest Bank acquisition, CIT s direct lending to oil and gas extraction and services increased to approximately $1 billion and now comprise about 3% of total loans. In addition, we have approximately $2.3 billion of railcars leased directly to railroads and other diversified shippers in support of the transportation and production of crude oil. We discuss our loan portfolio exposure to certain energy sectors in *Credit Metrics* and our rail operating lease portfolio below.

Operating Lease Equipment Rail

As detailed in the following table, at December 31, 2015, TIF had over 128,000 railcars and 390 locomotives on operating lease. The weighted average remaining lease term on the operating lease fleet is approximately 3 years, with approximately 24,500 leases on rail assets scheduled to expire in 2016. We also have commitments to purchase railcars, as disclosed in *Item 8. Financial Statements and Supplementary Data, Note 21 Commitments.*

Railcar Type	Owned Fleet	Purchase Orders
Covered Hoppers	47,198	3,933
Tank Cars	34,764	2,507
Mill/Coil Gondolas	14,488	
Coal	12,333	
Boxcars	8,553	400
Flatcars	5,375	
Locomotives	392	
Other	5,642	2
Total	128,745	6,842

TIF s global Rail business has a fleet of approximately 129,000 railcars and locomotives, including approximately 35,000 tank cars. The North American fleet has approximately 23,000 tank cars used in the transport of crude oil, ethanol and other flammable liquids (collectively, Flammable Liquids). Of the 23,000 tank cars, approximately 15,000 tank cars are leased directly to railroads and other diversified shippers for the transportation of crude by rail. The North America fleet also contains approximately 10,000 sand cars (covered hoppers) leased to customers to support crude oil and natural gas production.

On May 1, 2015, the U.S. Pipeline and Hazardous Materials Safety Administration (PHMSA) and Transport Canada (TC) each released their final rules (the Final Rules), which were generally aligned in recognition that many railcars are used in both countries. The Final U.S. Rules applied to all High Hazard Flammable Trains (HHFT), which is defined as trains with a continuous block of 20 or more tank cars loaded with a flammable liquid or 35 or more tank cars loaded with a flammable liquid dispersed through a train. The Final U.S. Rules (i) established enhanced DOT Specification 117 design and performance criteria applicable to tank cars constructed after October 1, 2015 for use in an HHFT and (ii) required retrofitting existing tank cars in accordance with DOT-prescribed retrofit design or performance standard for use in a HHFT. The retrofit timeline was based on two risk factors, the packing group of the flammable liquid and the differing types of DOT-111 and CPC-1232 tank cars. The Final U.S. Rules also established new braking standards, requiring HHFTs to have in place a functioning two-way end-of-train device or a distributive power braking system. In addition, the Final U.S. Rules established speed restrictions for HHFTs, established standards for rail routing analysis, required improved information sharing with state and local officials, and required more accurate classification of unrefined petroleum-based products, including developing and carrying out sampling and testing programs.

On December 4, 2015, President Obama signed into law the Fixing America s Surface Transportation Act (FAST Act), which, among other things, modified certain aspects of the Final U.S. Rules for transportation of flammable liquids. The FAST Act requires certain new tank cars to be equipped with thermal blankets , mandates all legacy DOT-111 tank cars in flammable liquids service, not only those used in an HHFT, to be upgraded to the new retrofit standard, and sets minimum requirements for the protection of certain valves. Further, it requires reporting on the industry-wide progress and capacity to modify DOT-111 tank cars. Finally, the FAST Act requires an independent evaluation to investigate braking technology requirements for the movement of trains carrying certain hazardous materials, and it requires the Secretary of Transportation to determine whether electronically-controlled pneumatic (ECP) braking system requirements, as imposed by the Final U.S. Rules, are justified The FAST Act provides clarity on retrofit requirements but will not have a material impact on our original plans to retrofit our fleet.

As noted above, CIT has approximately 23,000 tank cars in its North American fleet used in the transport of Flammable Liquids, of which less than half were manufactured prior to the adoption of the CPC-1232 standard. Based on our analysis of the Final U.S. Rules, as modified by the FAST Act, less than 1,000 cars in our current tank car fleet require retrofitting by March 2018. Approximately 75% of the cars in our flammable tank car fleet have a deadline of 2023 or later for modification, although we may decide to retrofit them sooner. Current tank cars on order are being configured to meet the Final U.S. Rules, as modified by the Fast Act, except for the installation of ECP braking systems. CIT is currently evaluating how the Final U.S. Rules, as modified by the Fast Act will impact its business and customers. We continue to believe that we will retrofit most, if not all of our impacted cars, depending on future industry and market conditions, and we will amortize the cost over the remaining asset life of the cars.

Operating Lease Equipment Aerospace

As detailed in the following table, at December 31, 2015, TIF had 284 commercial aircraft on operating lease. The weighted average remaining lease term on the commercial air operating lease fleet is approximately 5 years, with approximately 30 aircraft leases scheduled to expire in 2016. We also have commitments to purchase aircraft, as disclosed in *Item 8. Financial Statements and Supplementary Data, Note 21 Commitments.*

Aircraft Type	**Owned Fleet**	**Order Book**
Airbus A310/319/320/321	119	56
Airbus A330	40	15
Airbus A350	2	12
Boeing 737	84	40
Boeing 757	8	
Boeing 767	5	
Boeing 787	4	16
Embraer 145	1	
Embraer 175	4	
Embraer 190/195	16	
Other	1	
Total	284	139

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Commercial Aerospace

The following tables present detail on our commercial and regional aerospace portfolio (Commercial Aerospace). The net investment in regional aerospace financing and leasing assets was $43 million, $47 million and $52 million at December 31, 2015, 2014 and 2013, respectively, and was substantially comprised of loans and capital leases.

The information presented below by region, manufacturer, and body type, is based on our operating lease aircraft portfolio, which comprises 91% of our total commercial aerospace portfolio and substantially all of our owned fleet of leased aircraft at December 31, 2015.

Commercial Aerospace Portfolio (dollars in millions)

	December 31, 2015		December 31, 2014		December 31, 2013	
	Net Investment	Number	Net Investment	Number	Net Investment	Number
By Product:						
Operating lease[(1)]	$9,772.2	284	$9,309.3	279	$8,379.3	270
Loan	664.5	57	635.0	50	505.3	39
Capital lease	320.4	21	335.6	21	31.7	8
Total	$10,757.1	362	$10,279.9	350	$8,916.3	317

Commercial Aerospace Operating Lease Portfolio (dollars in millions)[(1)]

	December 31, 2015		December 31, 2014		December 31, 2013	
	Net Investment	Number	Net Investment	Number	Net Investment	Number
By Region:						
Asia / Pacific	$3,704.2	88	$3,505.9	84	$3,065.1	81
Europe	2,195.4	80	2,239.4	86	2,408.8	91
U.S. and Canada	2,091.0	65	1,802.6	57	1,276.5	43
Latin America	1,152.6	38	994.9	37	940.3	38
Africa / Middle East	629.0	13	766.5	15	688.6	17
Total	$9,772.2	284	$9,309.3	279	$8,379.3	270
By Manufacturer:						
Airbus	$6,232.3	161	$5,985.5	160	$5,899.1	167
Boeing	2,929.6	101	2,711.6	98	2,038.7	87
Embraer	552.7	21	547.2	20	441.5	16
Other	57.6	1	65.0	1		
Total	$9,772.2	284	$9,309.3	279	$8,379.3	270
By Body Type[(2)]:						
Narrow body	$6,211.4	230	$6,287.8	230	$6,080.6	230
Intermediate	3,502.2	52	2,955.3	47	2,297.3	39
Regional and other	58.6	2	66.2	2	1.4	1
Total	$9,772.2	284	$9,309.3	279	$8,379.3	270
Number of customers		95		98		98
Weighted average age of fleet (years)		5		5		5

(1) *Includes operating lease equipment held for sale.*

(2) *Narrow body are single aisle design and consist primarily of Boeing 737 and 757 series, Airbus A320 series, and Embraer E170 and E190 aircraft. Intermediate body are smaller twin aisle design and consist primarily of Boeing 767 series and Airbus A330 series aircraft. Regional and Other includes aircraft and related equipment, such as engines.*

Our top five commercial aerospace outstanding exposures totaled $2,745.4 million at December 31, 2015. The largest individual outstanding exposure totaled $907.6 million at December 31, 2015, which was to a U.S. carrier. See *Note 21 Commitments* in *Item 8. Financial Statements and Supplementary Data* for additional information regarding commitments to purchase additional aircraft.

CONSUMER CONCENTRATIONS

The following table presents our total outstanding consumer financing and leasing assets, including PCI loans as of December 31, 2015. All of the consumer loans were acquired in the OneWest Transaction; thus, there were no balances as of December 31, 2014. The consumer PCI loans are included in the total outstanding and displayed separately, net of purchase accounting adjustments. PCI loans are discussed in more detail in *Note 3 Loans* in *Item 8. Financial Statements and Supplementary Data.*

Consumer Financing and Leasing Assets at December 31, 2015 (dollars in millions)

	Net Investment	% of Total
Single family residential	$ 5,655.7	81.9 %
Reverse mortgage	917.4	13.3 %
Home Equity Lines of Credit	325.7	4.7 %
Other consumer	7.8	0.1 %
Total loans	$ 6,906.6	100.0 %

For consumer and residential loans, the Company monitors credit risk based on indicators such as delinquencies and LTV. We monitor trending of delinquency/delinquency rates as well as non-performing trends for home equity loans and residential real estate loans.

LTV refers to the ratio comparing the loan s unpaid principal balance to the property s collateral value. We update the property values of real estate collateral if events require current information and calculate current LTV ratios. We examine LTV migration and stratify LTV into categories to monitor the risk in the loan classes.

See *Note 3 Loans* in *Item 8. Financial Statements and Supplementary Data* for information on LTV ratios.

Loan concentrations may exist when borrowers could be similarly impacted by economic or other conditions. The following table summarizes the carrying value of consumer financing and leasing assets, with concentrations in the top five states based upon property address by geographical regions as of December 31, 2015:

Consumer Financing and Leasing Assets Geographic Concentrations at December 31, 2015 (dollars in millions)

	Net Investment	% of Total
California	$ 4,234.6	61.3 %
New York	560.5	8.1 %
Florida	306.7	4.5 %
New Jersey	177.8	2.6 %
Maryland	154.4	2.2 %
Other States and Territories[(1)]	1,472.6	21.3 %
	$ 6,906.6	100.0 %

(1) No state or territories have total carrying value in excess of 2%.

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RISK MANAGEMENT

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

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

- Credit risk is the risk of loss (including the incurrence of additional expenses) when a borrower does not meet its financial obligations to the Company. Credit risk may arise from lending, leasing, and/or counterparty activities.

- Asset risk is the equipment valuation and residual risk of lease equipment owned by the Company that arises from fluctuations in the supply and demand for the underlying leased equipment. The Company is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in either reduced future lease income over the remaining life of the asset or a lower sale value.

- Market risk includes interest rate and foreign currency risk. Interest rate risk is the risk that fluctuations in interest rates will have an impact on the Company s net finance revenue and on the market value of the Company s assets, liabilities and derivatives. Foreign exchange risk is the risk that fluctuations in exchange rates between currencies can have an economic impact on the Company s non-dollar denominated assets and liabilities.

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Liquidity risk is the risk that the Company has an inability to maintain adequate cash resources and funding capacity to meet its obligations, including under stress scenarios.

- Capital risk is the risk that the Company does not have adequate capital to cover its risks and to support its growth and strategic objectives.

- Operational risk is the risk of financial loss, damage to the Company s reputation, or other adverse impacts resulting from inadequate or failed internal processes and systems, people or external events.

- Information Technology Risk is the risk of financial loss, damage to the Company s reputation or other adverse impacts resulting from unauthorized (malicious or accidental) disclosure, modification, or destruction of information, including cyber-crime, unintentional errors and omissions, IT disruptions due to natural or man-made disasters, or failure to exercise due care and diligence in the implementation and operation of an IT system.

- Legal and Regulatory Risk is the risk that the Company is not in compliance with applicable laws and regulations, which may result in fines, regulatory criticism or business restrictions, or damage to the Company s reputation.

- Reputational Risk is the potential that negative publicity, whether true or not, will cause a decline in the value of the Company due to changes in the customer base, costly litigation, or other revenue reductions.

GOVERNANCE AND SUPERVISION

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

- the major risks inherent to CIT s business activities, as defined above;

- the Enterprise Risk Framework, which includes the policies, procedures, practices and resources used to manage and assess these risks, and the decision-making governance structure that supports it;

- the Risk Appetite and Risk Tolerance Framework, which defines the level and type of risk CIT is willing to assume in its exposures and business activities, given its business objectives, and sets limits, credit authorities, target performance metrics, underwriting standards and risk acceptance criteria used to define and guide the decision-making processes; and

- management information systems, including data, models, analytics and risk reporting, to enable adequate identification, monitoring and reporting of risks for proactive management.

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

The Credit Risk Management group manages and approves all credit risk throughout CIT. This group is led by the Chief Credit Officer (CCO), and includes the heads of credit for each business, the head of Problem Loan

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

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

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

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

The Risk Framework, Risk Policy & Governance are also managed through the CRO.

Credit Review is an independent oversight function that is responsible for performing internal credit-related reviews for the organization as well as the ongoing monitoring, testing, and measurement of credit quality and credit process risk in

enterprise-wide lending and leasing activities. Credit Review reports to the RMC of the Board and administratively to the CRO.

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

Regulatory Relations reports to the Chief Compliance Officer. The Audit Committee and the Regulatory Compliance Committee of the Board oversee financial, legal, compliance, regulatory and audit risk management practices.

STRATEGIC RISK

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

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

Oversight of strategic risk management is provided by the RMC, the ERC and the Risk Control Committee, a sub-committee of the ERC.

CREDIT RISK

Lending and Leasing Risk

The extension of credit through our lending and leasing activities is core to our businesses. As such, CIT s credit risk management process is centralized in the RMG, reporting into the CRO through the CCO. This group establishes the Company s underwriting standards, approves extensions of credit, and is responsible for portfolio management, including credit grading and problem loan management. RMG reviews and monitors credit exposures with the goal of identifying, as early as possible, customers that are experiencing declining creditworthiness or financial difficulty. The CCO evaluates reserves through our ALLL process for performing loans and non-accrual loans, as well as establishing nonspecific reserves to cover losses inherent in the portfolio. CIT s portfolio is managed by setting limits and target performance metrics, and monitoring risk concentrations by borrower, industry, geography and equipment type. We set or modify Risk Acceptance Criteria (underwriting standards) as conditions warrant, based on borrower risk, collateral, industry risk, portfolio size and concentrations, credit concentrations and risk of substantial credit loss. We evaluate our collateral and test for asset impairment based upon collateral value and projected cash flows and relevant market data with any impairment in value charged to earnings.

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

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

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

Credit personnel review potential borrowers financial condition, results of operations, management, industry, business model, customer base, operations, collateral and other data, such as third party credit reports and appraisals, to evaluate the potential customer s borrowing and repayment ability. Transactions are graded by PD and LGD ratings, as described above. Credit facilities are subject to our overall credit approval process and underwriting guidelines and are issued commensurate with the credit evaluation performed on each prospective borrower, as well as portfolio concentrations. Credit personnel continue to review the PD and LGD ratings periodically. Decisions on continued creditworthiness or impairment of borrowers are determined through these periodic reviews.

Small-Ticket Lending and Leasing. For small-ticket lending and leasing transactions, largely in Equipment Finance, we employ automated credit scoring models for origination (scorecards) and re-grading (auto re-grade algorithms). These are supplemented by business rules and expert judgment. The models evaluate, among other things, financial performance metrics, length of time in business, industry category and geography, and are used to assess a potential borrower s credit standing and repayment ability, including the value of collateral. We utilize external credit

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bureau scoring, when available, and behavioral models, as well as judgment in the credit adjudication, evaluation and collection processes.

We evaluate the small-ticket leasing portfolio using delinquency vintage curves and other tools to analyze trends and credit performance by transaction type, including analysis of specific credit characteristics and selected subsets of the portfolios. Adjustments to credit scorecards, auto re-grading algorithms, business rules and lending programs are made periodically based on these evaluations. Individual underwriters are assigned credit authority based upon experience, performance and understanding of underwriting policies of small-ticket leasing operations. A credit approval hierarchy is enforced to ensure that an underwriter with the appropriate level of authority reviews applications.

Consumer Lending. Consumer lending begins with an evaluation of a consumer s credit profile against published standards. Loans could be originated HFI or HFS. A loan that is originated as HFS must meet both the credit criteria of the Bank and the investor. At this time, agency eligible loans are originated for sale (Fannie Mae and Freddie Mac) as well as a limited number of Federal Housing Administration (FHA) loans. Jumbo loans are considered a HFI product. All loan requests are reviewed by underwriters. Credit decisions are made after reviewing qualitative factors and considering the transaction from a judgmental perspective.

Single family residential (1-4) mortgage loans are originated through retail originations and closed loan purchases.

Consumer products use traditional and measurable standards to document and assess the creditworthiness of a loan applicant. Concentration limits are established by the Board and credit standards follow industry standard documentation requirements. Performance is largely based on an acceptable pay history along with a quarterly assessment, which incorporates an assessment using current market conditions. Non-traditional loans are also monitored by way of a quarterly review of the borrower s refreshed credit score. When warranted an additional review of the underlying collateral may be conducted.

Counterparty Risk

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

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

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

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

ASSET RISK

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

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

MARKET RISK

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

Interest Rate Risk

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

- Net Interest Income Sensitivity (NII Sensitivity), which measures the net impact of hypothetical changes in interest rates on net finance revenue over a 12 month period; and
- Economic Value of Equity (EVE), which measures the net impact of these hypothetical changes on the value of equity by assessing the economic value of assets, liabilities and derivatives.

Interest rate risk and sensitivity is influenced primarily by the composition of the balance sheet, driven by the type of products offered (fixed/floating rate loans and deposits), investments, funding and hedging activities. Our assets are primarily comprised of commercial loans, consumer loans, operating lease equipment, cash and investments. Our leasing products are level/fixed payment transactions, whereas the interest rate on the majority of our commercial loan portfolio is based on a floating rate index such as short-term Libor or Prime. Our consumer loan portfolio is based on both floating rate and level/fixed payment transactions. Our debt securities within the investment portfolio, securities purchased under agreements to resell and interest bearing deposits (cash) have generally short durations and reprice frequently. We use a variety of funding sources, including CDs, money market, savings and checking accounts, and secured and unsecured debt. With respect to liabilities, CDs and unsecured debt are fixed rate, secured debt is a mix of fixed and floating rate, and the rates on savings accounts vary based on the market environment and competition. The composition of our assets and liabilities generally results in a net asset-sensitive position at the shorter end of the yield curve, mostly related to moves in LIBOR, whereby our assets will reprice faster than our liabilities.

Deposits continued to grow as a percent of total funding. CIT Bank, N.A. sources deposits primarily through a retail branch network in Southern California, direct-to-consumer (via the internet) and brokered channels. The Bank also offers a full range of commercial products. At December 31, 2015, the Bank had over $32 billion in deposits. Certificates of deposits represented approximately $18.2 billion, 56% of the total, most of which were sourced through direct channels. The deposit rates we offer can be influenced by market conditions and competitive factors. Changes in interest rates can affect our pricing and potentially impact our ability to gather and retain deposits. Rates offered by competitors also can influence our rates and our ability to attract and hold deposits. In a rising rate environment, the Bank may need to increase rates to renew maturing deposits and attract new deposits. Rates on our savings account deposits may fluctuate due to pricing competition and may also move with short-term interest rates. In general, retail deposits represent a low-cost source of funds and are less sensitive to interest rate changes than many non-deposit funding sources up to ten years. We regularly stress test the effect of deposit rate changes on our margins and seek to achieve optimal alignment between assets and liabilities from an interest rate risk management perspective.

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

Change to NII Sensitivity and EVE

	December 31, 2015		**December 31, 2014**		**December 31, 2013**	
	+100 bps	**100 bps**	**+100 bps**	**100 bps**	**+100 bps**	**100 bps**
NII Sensitivity	3.5%	(2.1)%	6.4%	(0.8)%	6.1%	(0.9)%
EVE	0.5%	(0.5)%	1.9%	(1.6)%	1.8%	(2.0)%

The EVE and NII sensitivity declined from the previous years due to several factors, including the incorporation of the former OneWest Bank assets and liabilities into the measurement assessment, the reduction in CIT s cash balances relative to the overall balance sheet and a refinement of the calculation. As of December 31, 2015, we ran a range of scenarios, including a 200 bps parallel increase scenario, which resulted in an NII Sensitivity of 6.7% and an EVE of 1.0%, while a 200bps decline scenario was not run as the current low rate environment makes the scenario less relevant. Regarding the negative scenarios, we have an assumed rate floor.

As detailed in the above table, NII sensitivity is positive with respect to an increase in interest rates. This is primarily driven by our floating rate loan portfolio (including approximately $9.7 billion that are subject to floors), which reprice frequently, and cash and investment securities. On a net basis, we generally have more floating/repricing assets than liabilities in the near term. As a result, our current portfolio is more sensitive to moves in short-term interest rates in the near term. Therefore, our NFR may increase if short-term interest rates rise, or decrease if short-term interest rates decline. Market implied forward rates over the subsequent future twelve months are used to determine a base interest rate scenario for the net interest income projection for the base case. This base projection is compared with those calculated under varying interest rate scenarios such as a 100 basis point parallel rate shift to arrive at NII Sensitivity.

EVE complements net interest income simulation and sensitivity analysis as it estimates risk exposures beyond a twelve month horizon. EVE modeling measures the extent to which the economic value of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to different rate shocks, measuring the net value of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the EVE sensitivity base case calculated using a market-based forward interest rate curve. The duration of our liabilities is greater than that of our assets, because we have more fixed rate liabilities than assets in the longer term, causing EVE to increase under increasing rates and decrease under decreasing rates. The methodology with which the operating lease assets are assessed in the results table above reflects the existing contractual rental cash flows and the expected residual value at the end of the existing contract term.

The simulation modeling for both NII Sensitivity and EVE assumes we take no action in response to the changes in interest rates, while NII Sensitivity generally assumes cashflow from portfolio run-off is reinvested in similar products.

A wide variety of potential interest rate scenarios are simulated within our asset/liability management system. All interest sensitive assets and liabilities are evaluated using discounted cash flow analysis. Rates are shocked up and down via a set of scenarios that include both parallel and non-parallel interest rate movements. Scenarios are also run to capture our sensitivity to changes in the shape of the yield curve. Furthermore, we evaluate the sensitivity of these results to a number of key assumptions, such as credit quality, spreads, and prepayments.

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Various holding periods of the operating lease assets are also considered. These range from the current existing lease term to longer terms which assume lease renewals consistent with management s expected holding period of a particular asset. NII Sensitivity and EVE limits have been set and are monitored for certain of the key scenarios. We manage the exposure to changes in NII Sensitivity and EVE in accordance with our risk appetite and within Board approved limits.

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

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

Foreign Currency Risk

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

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

LIQUIDITY RISK

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

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

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

CAPITAL RISK

Capital risk is the risk that the Company does not have adequate capital to cover its risks and to support its growth and strategic objectives. CIT establishes internal capital risk limits and warning thresholds, using both Economic and Risk-Based Capital calculations, as well as Dodd-Frank Act Stress Testing (DFAST), to evaluate the Firm s capital adequacy for multiple types of risk in both normal and stressed environments. Economic capital includes credit risk, asset risk, market risk, operational risk and model risk. DFAST is a forward-looking methodology that looks at FRB adverse and severely adverse scenarios as well as internally generated scenarios. The capital risk framework requires contingency plans for stress results that would breach the established capital thresholds.

OPERATIONAL RISK

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

Operational risk is managed within individual business units. The head of each business and functional area is responsible for maintaining an effective system of internal controls to mitigate operational risks. The business segment Chief Operating Officers designate Operational Risk Managers responsible for implementation of the Operational Risk framework programs. The Enterprise Operational Risk function provides oversight in managing operational risk, designs and supports the enterprise-wide Operational Risk framework programs, and promotes awareness

by providing training to employees and Operational Risk Managers within business units and functional areas. Additionally, Enterprise Operational Risk maintains the Loss Data Collection and Risk Assessment programs. Oversight of the operational risk management function is provided by the RMG, the RMC, the ERC and the Risk Control Committee, a sub-committee of the ERC.

INFORMATION TECHNOLOGY RISK

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

The Information Risk function provides oversight of the Information Security and Business Continuity Management (BCM) programs. Information Security provides oversight and guidance across the organization intended to preserve and protect the confidentiality, integrity, and availability of CIT information and information systems. BCM provides oversight and guidance of global business continuity and disaster recovery procedures through planning and implementation of proactive, preventive, and corrective actions intended to enable continuous business operations in the event of a disaster, including technology recovery. Information Risk is also responsible for crisis management and incident response and performs ongoing IT risk assessments of applications, infrastructure systems and third party vendors, as well as information security and BCM training and awareness for employees, contingent workers and consultants.

Oversight of the Information Risk function is provided by the RMG, the RMC, the ERC and the Risk Control Committee, a sub-committee of the ERC.

LEGAL and REGULATORY RISK

CIT is subject to a number of laws, regulations, regulatory standards, and guidance, both in the U.S. and in other countries in which it does business, some of which are applicable primarily to financial services and others of which are generally applicable to all businesses. Any failure to comply with applicable laws, regulations, standards, and guidance in the conduct of our business, including but not limited to funding our business, originating new business, purchasing and selling assets, and servicing our portfolios or the portfolios of third parties may result in governmental investigations and inquiries, legal proceedings, including both private and governmental plaintiffs, significant monetary damages, fines, or penalties, restrictions on the way in which we conduct our business, or reputational harm. To reduce these risks, the Company consults regularly with legal counsel, both internal and external, on significant legal and regulatory issues and has established a compliance function to facilitate maintaining compliance with applicable laws and regulations.

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

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

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

Oversight of legal and regulatory risk is provided by the Audit and Regulatory Compliance Committees of the Board of Directors, the ERC and the Risk Control Committee, a sub-committee of the ERC.

REPUTATIONAL RISK

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

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

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

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

Oversight of reputational risk management is provided by the Audit Committee of the Board of Directors, the RMC, the ERC, Compliance Committee and the Risk Control Committee, a sub-committee of the ERC. In addition, CIT s IAS monitors and tests the overall effectiveness of internal control and operational systems on an ongoing basis and reports results to senior management and to the Audit Committee of the Board.

FUNDING AND LIQUIDITY

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

Cash

- Cash totaled $8.3 billion at December 31, 2015, compared to $7.1 billion and $6.7 billion at December 31, 2014 and 2013, respectively. The increase was primarily due to $4.4 billion acquired in the OneWest Transaction, partially offset by cash of $1.9 billion used to pay for the acquisition. Cash at December 31, 2015 consisted of $1.1 billion related to the bank holding company and $6.0 billion at CIT Bank, N.A. (excluding $0.1 billion of restricted cash), with the remainder comprised of cash at operating subsidiaries and other restricted balances of approximately $1.2 billion.

Investment Securities

Investment Securities (dollars in millions)

	December 31, 2015	December 31, 2014	December 31, 2013
Available-for-sale securities			
Debt securities	$ 2,007.8	$ 1,116.5	$ 1,487.8
Equity securities	14.3	14.0	13.7
Held-to-maturity securities			
Debt securities	300.1	352.3	1,042.3
Investment securities carried at fair value with changes recorded in net income			
Debt securities	339.7		
Non-marketable equity investments and other	291.9	67.5	86.9
Total investment securities	$ 2,953.8	$ 1,550.3	$ 2,630.7

The increase in investment securities in 2015 primarily reflects $1.3 billion of investments acquired in the OneWest Bank acquisition, mostly MBS securities. In addition, the acquisition also drove the increase in the non-marketable equity investments, which represents the additional investment in FHLB and FRB securities. As part of our business strategy to improve returns, we plan to use cash and proceeds from maturing securities to increase our investments in higher-yielding securities in 2016. See *Note 1 Business and Summary of Significant Accounting Policies* in *Item 8. Financial Statements and Supplementary Data* for policies covering classification and reviewing for OTTI.

Interest and dividend income (a component of NFR), totaled $71 million, $36 million and $29 million for the years ended December 31, 2015, 2014 and 2013, respectively, with the current year reflecting the acquired mortgage-backed security portfolio from OneWest Bank. We also recognized net gains in other income of $1 million, $39 million and $8 million for the years ended December 31, 2015, 2014 and 2013, respectively. The revenue streams are discussed in *Net Finance Revenue* and *Non-interest Income.*

Credit Facilities

- A multi-year committed revolving credit facility that has a total commitment of $1.5 billion, of which $1.4 billion was unused at December 31, 2015; and

- Committed securitization facilities and secured bank lines totaled $4.1 billion, of which $2.3 billion was unused at December 31, 2015, provided that eligible assets are available that can be funded through these facilities.

Securities Purchased Under Resale Agreements

- Although at December 31, 2015 we did not invest in securities purchased under agreements to resell (reverse repurchase agreements), there were $650 million of investments at December 31, 2014, and we had invested in these securities periodically during 2015. These agreements were mostly short-term securities, and were secured by the underlying collateral, which was maintained at a third-party custodian. Interest earned on these securities is included in Other interest and dividends in the statement of income.

Asset liquidity is further enhanced by our ability to sell or syndicate portfolio assets in secondary markets, which also enables us to manage credit exposure, and to pledge assets to access secured borrowing facilities through the FHLB and FRB.

Funding Sources

Funding sources include deposits and borrowings. As a result of the OneWest Transaction and our continued funding and liability management initiatives, our funding mix has continued to change to a higher mix of deposits. The following table reflects our funding mix:

Funding Mix

	December 31, 2015	**December 31, 2014**	**December 31, 2013**
Deposits	64 %	46 %	40 %
Unsecured	21 %	35 %	41 %
Secured Borrowings:			
Structured financings	9 %	18 %	18 %
FHLB Advances	6 %	1 %	1 %

The higher proportion of deposits and FHLB advances is reflective of the OneWest Transaction. The percentage of funding for each period excludes the debt related to discontinued operations.

The following sections on deposits and borrowings provide further detail on the acquired amounts and the effect on existing balances.

Deposits

The following table details our ending deposit balances by type:

Deposits at December 31 (dollars in millions)

	2015	**2014**	**2013**
	Total	**Total**	**Total**

		Percent of Total		Percent of Total		Percent of Total
Checking and Savings:						
Non-interest bearing checking	$866.2	2.6 %	$–	–	$–	–
Interest bearing checking	3,123.7	9.5 %	–	–	–	–
Money market	5,560.5	17.0 %	1,873.8	11.8 %	1,857.8	14.8 %
Savings	4,840.5	14.8 %	3,941.6	24.9 %	2,710.8	21.6 %
Certificates of Deposits	18,201.9	55.5 %	9,942.2	62.7 %	7,859.5	62.8 %
Other	189.4	0.6 %	92.2	0.6 %	98.4	0.8 %
Total	$32,782.2	100.0%	$15,849.8	100.0%	$12,526.5	100.0%

During 2015, deposit growth was solid, and included the addition of $14.5 billion related to the OneWest Transaction. The acquisition broadened our product offerings and customer base. CIT Bank, N.A. offers a full suite of deposit offerings to its customers, and with the acquisition, now has a branch network of 70 branches in Southern California to serve its customers. Deposit growth is a key area of focus for CIT as it offers lower funding costs compared to other sources. The weighted average coupon rate of total deposits was 1.26% at December 31, 2015, down from 1.69% at December 31, 2014 and 1.65% at December 31, 2013, as the rates on the acquired deposits were lower than existing deposits due to the mix of deposits acquired. At December 31, 2015, our CDs had a weighted average remaining life of approximately 2.4 years. See *Net Finance Revenue* section for further discussion on average balances and rates.

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Borrowings

Borrowings consist of senior unsecured notes and secured borrowings (structured financings and FHLB advances), all of which totaled $18.5 billion at December 31, 2015, essentially unchanged from December 31, 2014 and 2013. The borrowings from the OneWest Transaction, which was mostly in the form of FHLB advances ($3.0 billion), was offset by the maturity of $1.2 billion and repurchase of $55 million of unsecured notes during 2015 and net repayments of structured financings. The weighted average coupon rate of borrowings at December 31, 2015 was 3.91%, down from 4.32% and 4.47% at December 31, 2014 and 2013, respectively, reflecting the acquired FHLB advances, which have lower rates.

In conjunction with pursuing strategic alternatives for our Commercial Air business, we are evaluating both a spin-off to shareholders as a separate public entity and sale alternatives. It is very likely that any alternative will result in restructuring some of our funding facilities, including our secured and unsecured debt, as well as the TRS, which could result in significant debt-related costs.

Unsecured

Revolving Credit Facility

The following information was in effect prior to the 2016 Revolving Credit facility amendment. See *Note 30 Subsequent Events* in *Item 8. Financial Statements and Supplementary Data* for changes to this facility.

There were no borrowings outstanding under the Revolving Credit Facility at December 31, 2015. The amount available to draw upon was approximately $1.4 billion at December 31, 2015, with the remaining amount of approximately $0.1 billion utilized for issuance of letters of credit.

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

The Revolving Credit Facility is unsecured and is guaranteed by eight of the Company s domestic operating subsidiaries. The facility contains a covenant requiring a minimum guarantor asset coverage ratio and the criteria for calculating the ratio. The covenant requires a minimum guarantor asset coverage ratio ranging from 1.0:1.0 to 1.75:1.0 depending on the Company s long-term senior unsecured debt rating. The current requirement is 1.5:1.0. As of December 31, 2015, the last reported asset coverage ratio was 2.33x.

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

Senior Unsecured Borrowings

At December 31, 2015, unsecured borrowings outstanding totaled $10.7 billion, compared to $11.9 billion and $12.5 billion at December 31, 2014 and 2013, respectively. The weighted average coupon rate of unsecured borrowings at December 31, 2015 was 5.03%, up slightly from 5.00% at December 31, 2014 and down from 5.11% at December 31, 2013.The decline in the 2015 outstanding balance and slight increase in rate reflect the repayment of $1.2 billion of maturing 4.75% notes in the first quarter and modest debt repurchases in the third and fourth quarters of 2015. As detailed in Contractual Commitments and Payments below, there are no scheduled maturities in 2016, and $5.1 billion of scheduled maturities in 2017 through April 2018. See *Note 10 Borrowings* in *Item 8. Financial Statements and Supplementary Data* for further detail.

Secured

Secured Borrowings

As part of our liquidity management strategy, we may pledge assets to secure financing transactions (which include securitizations), to secure borrowings from the FHLB or for other purposes as required or permitted by law. Our secured financing transactions do not meet accounting requirements for sale treatment and are recorded as secured borrowings, with the assets remaining on-balance sheet pursuant to GAAP. The debt associated with these transactions is collateralized by receivables, leases and/or equipment. Certain related cash balances are restricted.

FHLB Advances

FHLB advances have become a larger source of funding as a result of the OneWest Transaction. CIT Bank, N.A. is a member of the FHLB of San Francisco and may borrow under a line of credit that is secured by collateral pledged to the FHLB San Francisco. The Bank makes decisions regarding utilization of advances based upon a number of factors including liquidity needs, capital constraints, cost of funds and alternative sources of funding. CIT Bank, N.A. had $3.1 billion outstanding under the line and $6.8 billion of assets were pledged as collateral at December 31, 2015.

Prior to the OneWest Transaction, at December 31, 2014, CIT Bank was a member of the FHLB of Seattle (before its merger into FHLB Des Moines on June 1, 2015) and had $125 million outstanding under a line of credit and $168 million of commercial real estate assets were pledged as collateral. Also at December 31, 2014 and 2013, a subsidiary of CIT Bank was a member of FHLB Des Moines and had $130 million and $35 million of advances outstanding and $142 million and $46 million of collateral pledged, respectively.

FHLB Advances and pledged assets are also discussed in *Note 10 Borrowings* in *Item 8. Financial Statements and Supplementary Data*.

Structured Financings

Structured Financings totaled approximately $4.7 billion at December 31, 2015, compared to $6.3 billion and $5.7 billion at December 31, 2014 and 2013, respectively. The decrease in secured borrowings during 2015 reflects repayments, while the increase during 2014 reflects debt acquired with the Nacco and Direct Capital acquisi-

tions, partially offset by net repayments. The weighted average coupon rate of structured financings at December 31, 2015 was 3.40%, up from 3.19% and 3.14% at December 31, 2014 and 2013, respectively. The increase in the weighted average rate in 2015 mostly reflects the repayments on lower coupon financings.

CIT Bank, N.A. structured financings totaled $0.8 billion, $1.6 billion and $0.8 billion at December 31, 2015, 2014 and 2013, respectively, which were secured by $1.1 billion, $2.1 billion and $1.0 billion of pledged assets at December 31, 2015, 2014 and 2013, respectively. Non-bank structured financings were $3.9 billion, $4.7 billion and $5.1 billion at December 31, 2015, 2014 and 2013, respectively, and were secured by assets of $7.2 billion, $8.2 billion and $8.6 billion, at December 31, 2015, 2014 and 2013, respectively.

See *Note 10 Borrowings* in *Item 8. Financial Statements and Supplementary Data* for a table displaying our consolidated secured financings and pledged assets.

FRB

The Company has a borrowing facility with the FRB Discount Window that can be used for short-term, typically overnight, borrowings. The borrowing capacity is determined by the FRB based on the collateral pledged.

There were no outstanding borrowings with the FRB Discount Window as of December 31, 2015 or December 31, 2014. See *Note 10 Borrowings* in *Item 8. Financial Statements and Supplementary Data* for total balances pledged, including amounts to the FRB.

GSI Facilities

Two financing facilities between two wholly-owned subsidiaries of CIT and Goldman Sachs International (GSI) are structured as total return swaps (TRS), under which amounts available for advances are accounted for as derivatives.

Pursuant to applicable accounting guidance, only the unutilized portion of the TRS is accounted for as a derivative and recorded at its estimated fair value. The size of the CIT Financial Ltd. (CFL) facility is $1.5 billion and the CIT TRS Funding B.V. (BV) facility is $625 million.

At December 31, 2015, a total of $1,760 million of pledged assets, and secured debt totaling $1,149 million issued to investors, was outstanding under the GSI Facilities. About half of the pledged assets and debt outstanding under the GSI Facilities related to commercial aerospace assets, a business that management is pursuing strategic alternatives for. After adjustment to the amount of actual qualifying borrowing base under the terms of the GSI Facilities, this secured debt provided for usage of $972 million of the maximum notional amount of the GSI Facilities. The remaining $1,153 million of the maximum notional amount represents the unused portion of the GSI Facilities and constitutes the notional amount of derivative financial instruments. An unsecured counterparty receivable of $537.8 million is owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to the asset-backed securities underlying the structures at December 31, 2015.

The GSI Facilities were structured as a TRS to satisfy the specific requirements set by GSI to obtain its funding commitment. Under the terms of the GSI Facilities, CIT raises cash from the issuance of ABS to investors designated by GSI under the total return swap, equivalent to the face amount of the ABS less an adjustment for any OID which equals the market price of the ABS. CIT is also required to deposit a portion of the face amount of the ABS with GSI as additional collateral prior to funding ABS through the GSI Facilities.

Amounts deposited with GSI can increase or decrease over time depending on the market value of the ABS and / or changes in the ratings of the ABS. CIT and GSI engage in periodic settlements based on the timing and amount of coupon, principal and any other payments actually made by CIT on the ABS. Pursuant to the terms of the TRS, GSI is obligated to return those same amounts to CIT plus a proportionate amount of the initial deposit. Simultaneously, CIT is obligated to pay GSI (1) principal in an amount equal to the contractual market price times the amount of principal reduction on the ABS and (2) interest equal to LIBOR times the adjusted qualifying borrowing base of the ABS. On a quarterly basis, CIT pays the fixed facility fee of 2.85% per annum times the maximum facility commitment amount.

Valuation of the derivatives related to the GSI Facilities is based on several factors using a discounted cash flow (DCF) methodology, including:

- Funding costs for similar financings based on the current market environment;
- Forecasted usage of the long-dated GSI Facilities through the final maturity date in 2028; and
- Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Based on the Company s valuation, we recorded a liability of $55 million, $25 million and $10 million at December 31, 2015, 2014 and 2013, respectively. During 2015, 2014 and 2013, we recognized $30 million, $15 million and $4 million, respectively, as a reduction to other income associated with the change in liability.

Interest expense related to the GSI Facilities is affected by the following:

- A fixed facility fee of 2.85% per annum times the maximum facility commitment amount,
- A variable amount based on one-month or three-month U.S.D. LIBOR times the utilized amount (effectively the adjusted qualifying borrowing base) of the total return swap, and

- A reduction in interest expense due to the recognition of the payment of any OID from GSI on the various asset-backed securities.

See *Note 11 Derivative Financial Instruments* in *Item 8. Financial Statements and Supplementary Data* for further information.

Debt Ratings

Debt ratings can influence the cost and availability of short-and long-term funding, the terms and conditions on which such funding may be available, the collateral requirements, if any, for borrowings and certain derivative instruments, the acceptability of our letters of credit, and the number of investors and counterparties willing to lend to the Company. A decrease, or potential decrease, in credit ratings could impact access to the capital markets and/or increase the cost of debt, and thereby adversely affect the Company s liquidity and financial condition.

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CIT and CIT Bank debt ratings at December 31, 2015, as rated by Standard & Poor s Ratings Services (S&P), Fitch Ratings, Inc. (Fitch), Moody s Investors Service (Moody s) and Dominion Bond Rating Service (DBRS) are present in the following table.

Debt Ratings as of December 31, 2015

	S&P	**Fitch**	**Moody s**	**DBRS**
CIT Group Inc.				
Issuer / Counterparty Credit Rating	BB+	BB+	NR	BB (High)
Revolving Credit Facility Rating	BB+	BB+	B1	BBB (Low)
Series C Notes / Senior Unsecured Debt Rating	BB+	BB+	B1	BB (High)
Outlook	Stable	Stable	Positive	Stable
CIT Bank, N.A.				
Deposit Rating (LT/ST)	NR	BBB-/F3	NR	BB (High)/R-4
Long-term Senior Unsecured Debt Rating	BBB-	BB+	NR	BB (High)

NR Not Rated

In January 2016, S&P assigned a long-term issuer credit rating of BBB- to CIT Bank, N.A.

Changes to debt ratings of CIT Group Inc. during 2015 included:

- In December, S&P raised its long-term issuer credit rating to BB+ with a stable outlook and raised our senior unsecured rating to BB+.

- In October, Moody s changed its outlook to positive from stable and DBRS upgraded our Issuer and Unsecured Debt ratings to BB (high) with a Stable outlook.

- In March, Moody s affirmed CIT Group s Ba3 corporate family rating but downgraded the senior unsecured rating from Ba3 to B1 with a stable ratings outlook. Concurrently, Moody s transitioned its ratings analysis of CIT Group to Moody s bank methodology from Moody s finance company rating methodology. Because Moody s does not assign corporate family ratings under the bank rating framework, CIT s Ba3 corporate family rating was withdrawn.

Rating agencies indicate that they base their ratings on many quantitative and qualitative factors, including capital adequacy, liquidity, asset quality, business mix, level and quality of earnings, and the current operating, legislative and regulatory environment, including implied government support. In addition, rating agencies themselves have been subject to scrutiny arising from the financial crisis and could make or be required to make substantial changes to their ratings policies and practices, particularly in response to legislative and regulatory changes, including as a result of provisions in the Dodd-Frank Act. Potential changes in rating methodology as well as in the legislative and regulatory environment and the timing of those changes could impact our ratings, which as noted above could impact our liquidity and financial condition.

A debt rating is not a recommendation to buy, sell or hold securities, and the ratings are subject to revision or withdrawal at any time by the assigning rating agency. Each rating should be evaluated independently of any other rating.

Tax Implications of Cash in Foreign Subsidiaries

Cash held by foreign subsidiaries totaled $1.0 billion, including cash available to the BHC and restricted cash, at December 31, 2015, compared to $1.8 billion at each of December 31, 2014 and 2013.

Other than in a limited number of jurisdictions, Management does not intend to indefinitely reinvest foreign earnings.

Contractual Payments and Commitments

Payments for the Years Ended December 31[(1)] (dollars in millions)

	Total	**2016**	**2017**	**2018**	**2019**	**2020+**
Structured financings[(2)]	$4,736.0	$1,412.7	$810.2	$655.6	$355.8	$1,501.7
FHLB advances	3,113.5	1,948.5	15.0	1,150.0		
Senior unsecured	10,695.9		2,944.5	2,200.0	2,750.0	2,801.4
Total Long-term borrowings	18,545.4	3,361.2	3,769.7	4,005.6	3,105.8	4,303.1
Deposits	32,762.4	22,289.6	3,277.5	1,401.5	2,039.1	3,754.7
Credit balances of factoring clients	1,344.0	1,344.0				
Lease rental expense	305.2	56.6	47.0	44.7	41.7	115.2
Total contractual payments	$52,957.0	$27,051.4	$7,094.2	$5,451.8	$5,186.6 &n	