CIT GROUP INC
Form 10-Q
May 09, 2013

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

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2013

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

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**65-1051192** (IRS Employer Identification Number)
11 West 42nd Street New York, New York (Address of Registrant s principal executive offices)	**10036** (Zip Code)
(212) 461-5200 (Registrant s telephone number)	

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. Large accelerated filer |X| Accelerated filer |_| Non-accelerated filer |_| Smaller reporting company |_|.

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

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

As of April 30, 2013 there were 201,252,748 shares of the registrant s common stock outstanding.

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Part One Financial Information

ITEM 1. Consolidated Financial Statements

CIT GROUP INC. AND SUBSIDIARIES

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

	March 31, 2013	December 31, 2012

	March 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 449.7	$ 447.3
Interest bearing deposits, including restricted balances of $1,203.1 and $1,185.1 at March 31, 2013 and December 31, 2012[1]	5,091.1	6,374.0
Investment securities	1,724.1	1,065.5
Trading assets at fair value derivatives	21.2	8.4
Assets held for sale[1]	646.8	646.4
Loans (see Note 5 for amounts pledged)	22,120.4	20,847.6
Allowance for loan losses	(386.0)	(379.3)
Total loans, net of allowance for loan losses[1]	21,734.4	20,468.3
Operating lease equipment, net (see Note 5 for amounts pledged)[1]	12,290.6	12,411.7
Unsecured counterparty receivable	630.8	649.1
Goodwill	345.9	345.9
Intangible assets, net	27.7	31.9
Other assets	1,601.1	1,563.5
Total Assets	**$44,563.4**	**$44,012.0**
Liabilities		
Deposits	$10,701.9	$ 9,684.5
Trading liabilities at fair value derivatives	52.1	81.9
Credit balances of factoring clients	1,237.7	1,256.5
Other liabilities	2,492.6	2,687.8
Long-term borrowings, including $1,408.8 and $1,425.9 contractually due within twelve months at March 31, 2013 and December 31, 2012, respectively	21,577.0	21,961.8
Total Liabilities	**36,061.3**	**35,672.5**
Stockholders Equity		
Common stock: $0.01 par value, 600,000,000 authorized		
Issued: 201,903,445 and 201,283,063 at March 31, 2013 and December 31, 2012	2.0	2.0
Outstanding: 201,246,659 and 200,868,802 at March 31, 2013 and December 31, 2012		
Paid-in capital	8,514.4	8,501.8
Retained earnings (Accumulated deficit)	88.0	(74.6)
Accumulated other comprehensive loss	(83.3)	(77.7)
Treasury stock: 656,786 and 414,261 shares at March 31, 2013 and December 31, 2012 at cost	(26.7)	(16.7)
Total Common Stockholders Equity	8,494.4	8,334.8
Noncontrolling minority interests	7.7	4.7
Total Equity	**8,502.1**	**8,339.5**
Total Liabilities and Equity	**$44,563.4**	**$44,012.0**

[1] *The following table presents information on assets and liabilities related to Variable Interest Entities (VIEs) that are consolidated by the Company. The difference between VIE total assets and total liabilities represents the Company s interests in those entities, which were eliminated in consolidation. The assets of the consolidated VIEs will be used to settle the liabilities of those entities and, except for the Company s interest in the VIEs, are not available to the creditors of CIT or any affiliates of CIT.*

Assets		
Interest bearing deposits, restricted	$ 675.5	$ 751.5
Assets held for sale	6.2	8.7
Total loans, net of allowance for loan losses	7,112.8	7,135.5
Operating lease equipment, net	4,543.5	4,508.8

Total Assets	**$12,338.0**	**$12,404.5**
Liabilities		
Beneficial interests issued by consolidated VIEs (classified as long-term borrowings)	$ 8,874.8	$ 9,241.3
Total Liabilities	**$ 8,874.8**	**$ 9,241.3**

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended March 31,	
	2013	**2012**
Interest income		
Interest and fees on loans	$ 349.4	$ 418.5
Interest and dividends on interest bearing deposits and investments	6.4	7.8
Interest income	355.8	426.3
Interest expense		
Interest on long-term borrowings	(249.6)	(1,044.3)
Interest on deposits	(42.3)	(36.3)
Interest expense	(291.9)	(1,080.6)
Net interest revenue	63.9	(654.3)
Provision for credit losses	(19.5)	(42.6)
Net interest revenue, after credit provision	44.4	(696.9)
Non-interest income		
Rental income on operating leases	444.9	440.6
Other income	70.1	255.3
Total non-interest income	515.0	695.9
Total revenue, net of interest expense and credit provision	559.4	(1.0)
Other expenses		
Depreciation on operating lease equipment	(143.3)	(137.6)
Operating expenses	(235.3)	(224.3)
Loss on debt extinguishments		(22.9)
Total other expenses	(378.6)	(384.8)
Income (loss) before provision for income taxes	180.8	(385.8)
Provision for income taxes	(15.2)	(40.3)
Income (loss) before noncontrolling interests	165.6	(426.1)
Net income attributable to noncontrolling interests, after tax	(3.0)	(0.9)
Net Income (loss)	$ 162.6	$ (427.0)
Basic income (loss) per common share	$ 0.81	$ (2.13)
Diluted income (loss) per common share	$ 0.81	$ (2.13)

		Quarters Ended March 31,	
Average number of common shares	basic (thousands)	201,149	200,812
Average number of common shares	diluted (thousands)	201,779	200,812

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended March 31,	
	2013	**2012**
Income (loss) before noncontrolling interests	$ 165.6	$ (426.1)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(5.0)	0.9
Changes in fair values of derivatives qualifying as cash flow hedges	(0.1)	0.5
Net unrealized gains (losses) on available for sale securities	(0.3)	0.5
Changes in benefit plans net gain/(loss) and prior service (cost)/credit	(0.2)	0.4
Other comprehensive income (loss), net of tax	(5.6)	2.3
Comprehensive income (loss) before noncontrolling interests	160.0	(423.8)
Comprehensive income attributable to noncontrolling interests	(3.0)	(0.9)
Comprehensive income (loss)	$ 157.0	$ (424.7)

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Common Stock	Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity

	Common Stock	Paid-in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Noncontrolling Minority Interests	Total Equity
December 31, 2012	**$2.0**	**$8,501.8**	**$ (74.6)**	**$(77.7)**	**$(16.7)**	**$ 4.7**	**$8,339.5**
Net income (loss)			162.6			3.0	165.6
Other comprehensive loss, net of tax				(5.6)			(5.6)
Amortization of restricted stock, stock option and performance shares expenses		12.4			(10.0)		2.4
Employee stock purchase plan		0.2					0.2
Distribution of earnings and capital							
March 31, 2013	**$2.0**	**$8,514.4**	**$ 88.0**	**$(83.3)**	**$(26.7)**	**$ 7.7**	**$8,502.1**
December 31, 2011	**$2.0**	**$8,459.3**	**$ 517.7**	**$(82.6)**	**$(12.8)**	**$ 2.5**	**$8,886.1**
Net income (loss)			(427.0)			0.9	(426.1)
Other comprehensive income, net of tax				2.3			2.3
Amortization of restricted stock and stock option expenses		12.1			(3.7)		8.4
Employee stock purchase plan		0.3					0.3
Distribution of earnings and capital						(0.3)	(0.3)
March 31, 2012	**$2.0**	**$8,471.7**	**$ 90.7**	**$(80.3)**	**$(16.5)**	**$ 3.1**	**$8,470.7**

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

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CIT GROUP INC. AND SUBSIDIARIES

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

	Quarters Ended March 31, 2013	Quarters Ended March 31, 2012
Cash Flows From Operations		
Net income (loss)	$ 162.6	$ (427.0)
Adjustments to reconcile net income (loss) to net cash flows from operations:		
Provision for credit losses	19.5	42.6
Net depreciation, amortization and (accretion)	173.1	750.2
Net gains on equipment, receivable and investment sales	(29.9)	(181.6)
Provision for deferred income taxes	6.7	13.0
Increase in finance receivables held for sale	(4.3)	(22.6)
Increase in other assets	(61.5)	(137.0)
Decrease in accrued liabilities and payables	(197.3)	(24.3)

	Quarters Ended March 31,	
Net cash flows provided by operations	68.9	13.3
Cash Flows From Investing Activities		
Loans originated and purchased	(4,613.7)	(5,352.0)
Principal collections of loans	3,420.4	4,463.4
Purchases of investment securities	(3,912.7)	(4,310.0)
Proceeds from maturities of investment securities	3,255.1	4,246.8
Proceeds from asset and receivable sales	364.8	1,362.0
Purchases of assets to be leased and other equipment	(190.7)	(226.0)
Net increase in short-term factoring receivables	(243.8)	(78.1)
Change in restricted cash	(18.0)	(37.8)
Net cash flows (used in) provided by investing activities	(1,938.6)	68.3
Cash Flows From Financing Activities		
Proceeds from the issuance of term debt	110.4	5,132.0
Repayments of term debt	(562.5)	(7,016.8)
Net increase in deposits	1,018.9	625.4
Collection of security deposits and maintenance funds	122.2	128.3
Use of security deposits and maintenance funds	(117.8)	(87.8)
Net cash flows provided by (used in) financing activities	571.2	(1,218.9)
Decrease in cash and cash equivalents	(1,298.5)	(1,137.3)
Unrestricted cash and cash equivalents, beginning of period	5,636.2	6,565.7
Unrestricted cash and cash equivalents, end of period	**$ 4,337.7**	**$ 5,428.4**
Supplementary Cash Flow Disclosure		
Interest paid	$ 301.3	$ 395.3
Federal, foreign, state and local income taxes (paid), net	$ (39.2)	$ (5.9)
Supplementary Non Cash Flow Disclosure		
Transfer of assets from held for investment to held for sale	$ 186.9	$ 171.6
Transfer of assets from held for sale to held for investment	$ 8.0	$ 0.5

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

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

NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CIT Group Inc., together with its subsidiaries (collectively CIT or the Company) has provided financial solutions to its clients since its formation in 1908. The Company provides financing and leasing capital principally for small businesses and middle market companies in a wide variety of industries and offers vendor, equipment, commercial and structured financing products, as well as factoring and management advisory services. CIT became a bank holding company (BHC) in December 2008, and is regulated by the Board of Governors of the Federal Reserve System (FRS) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956 (BHC Act). CIT Bank, a wholly-owned subsidiary, is a state-chartered bank located in Salt Lake City, Utah. The Company operates primarily in North America, with locations in Europe, South America and Asia.

BASIS OF PRESENTATION

Principles of Consolidation

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

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

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

The accounting and financial reporting policies of CIT Group Inc. conform to GAAP and the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates and assumptions. Some of the more significant estimates include: valuation of deferred tax assets; lease residual values and depreciation of operating lease equipment; and allowance for loan losses. Additionally where applicable, the policies conform to accounting and reporting guidelines prescribed by bank regulatory authorities.

NEW ACCOUNTING PRONOUNCEMENTS

Foreign Currency Matters

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

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

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

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

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NOTE 2 LOANS

Finance receivables consist of the following:

Finance Receivables by Product (dollars in millions)

	March 31, 2013	December 31, 2012
Loans	$16,827.0	$15,825.4
Direct financing leases and leveraged leases	5,293.4	5,022.2
Finance receivables	22,120.4	20,847.6
Finance receivables held for sale	271.2	302.8
Finance and held for sale receivables[(1)]	$22,391.6	$21,150.4

[(1)] *Assets held for sale on the Balance Sheet include finance receivables and operating lease equipment. Balances in this disclosure include $271.2 million and $302.8 million of finance receivables in Assets Held for Sale at March 31, 2013 and December 31, 2012, respectively, which are measured at the lower of cost or fair value (and do not include operating leases). ASU 2010-20 does not require inclusion of these finance receivables in the disclosures above. However, until they are disposed of, the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, so that Company data are tracked and used for management purposes on an aggregated basis, as presented above.*

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

Finance Receivables (dollars in millions)

	March 31, 2013			December 31, 2012		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Corporate Finance	$ 8,187.9	$ 926.4	$ 9,114.3	$ 7,159.8	$1,013.2	$ 8,173.0
Transportation Finance	1,175.2	762.9	1,938.1	1,219.8	633.4	1,853.2
Trade Finance	2,379.7	145.5	2,525.2	2,177.2	128.1	2,305.3
Vendor Finance	2,470.6	2,471.5	4,942.1	2,459.1	2,359.6	4,818.7
Consumer	3,590.8	9.9	3,600.7	3,687.3	10.1	3,697.4
Total	$17,804.2	$4,316.2	$22,120.4	$16,703.2	$4,144.4	$20,847.6

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

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

	March 31, 2013	December 31, 2012
Unearned income	$(989.6)	$(995.2)
Unamortized (discounts)	(59.9)	(40.5)
Net unamortized deferred costs and (fees)	42.6	51.4

Certain of the following tables present credit-related information at the class level in accordance with ASC 310-10-50, Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

Credit Quality Information

The following table summarizes finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. Risk ratings are reviewed on a regular basis by Credit Risk Management and are adjusted as necessary for updated information affecting the borrowers ability to fulfill their obligations.

The definitions of these ratings are as follows:

- Pass finance receivables in this category do not meet the criteria for classification in one of the categories below.
- Special mention a special mention asset exhibits potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.
- Classified a classified asset ranges from: (1) assets that exhibit a well-defined weakness and are inadequately protected by the current sound worth and paying capacity of the borrower, and are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected to (2) assets with weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values. Assets in this classification can be accruing or on non-accrual depending on the evaluation of these factors.

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

Grade:	Corporate Finance Other	Corporate Finance SBL	Transportation Finance	Trade Finance	Vendor Finance U.S.	Vendor Finance International	Commercial	Consumer
March 31, 2013								
Pass	$7,134.8	$163.3	$1,566.4	$2,067.3	$2,044.8	$2,406.9	$15,383.5	$3,219.2
Special mention	788.4	339.2	219.8	245.1	214.6	199.4	2,006.5	107.9
Classified accruing	431.2	95.5	133.0	208.9	159.0	79.2	1,106.8	273.6
Classified non-accrual	126.8	58.1	18.9	3.9	52.2	34.2	294.1	
Total	$8,481.2	$656.1	$1,938.1	$2,525.2	$2,470.6	$2,719.7	$18,790.9	$3,600.7
December 31, 2012								
Pass	$6,228.7	$166.1	$1,492.4	$1,913.2	$2,057.0	$2,340.5	$14,197.9	$3,254.1
Special mention	759.5	358.6	184.1	266.9	194.0	161.8	1,924.9	213.5
Classified accruing	408.2	96.7	136.2	119.2	160.4	77.7	998.4	229.8
Classified non-accrual	148.9	63.0	40.5	6.0	45.5	26.3	330.2	1.6
Total	$7,545.3	$684.4	$1,853.2	$2,305.3	$2,456.9	$2,606.3	$17,451.4	$3,699.0

Past Due and Non-accrual Loans

The table that follows presents portfolio delinquency status, regardless of accrual/non-accrual classification:

Finance and Held for Sale Receivables Delinquency Status (dollars in millions)

	30 59 Days Past Due	60 89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Finance Receivables
March 31, 2013						
Commercial						
Corporate Finance Other	$ 4.7	$ 0.3	$ 25.4	$ 30.4	$ 8,450.8	$ 8,481.2
Corporate Finance SBL	18.0	2.6	7.8	28.4	627.7	656.1
Transportation Finance	16.1	0.5	0.1	16.7	1,921.4	1,938.1
Trade Finance	34.6	2.4	5.5	42.5	2,482.7	2,525.2
Vendor Finance U.S.	57.4	11.9	10.6	79.9	2,390.7	2,470.6
Vendor Finance International	75.6	24.2	10.2	110.0	2,609.7	2,719.7
Total Commercial	206.4	41.9	59.6	307.9	18,483.0	18,790.9
Consumer	109.1	63.1	212.6	384.8	3,215.9	3,600.7
Total	$315.5	$105.0	$272.2	$692.7	$21,698.9	$22,391.6
December 31, 2012						
Commercial						
Corporate Finance Other	$	$ 0.3	$ 4.0	$ 4.3	$ 7,541.0	$ 7,545.3
Corporate Finance SBL	18.0	2.9	12.5	33.4	651.0	684.4
Transportation Finance	4.0	0.9	0.7	5.6	1,847.6	1,853.2
Trade Finance	79.3	3.4	5.6	88.3	2,217.0	2,305.3
Vendor Finance U.S.	56.1	18.0	12.4	86.5	2,370.4	2,456.9
Vendor Finance International	55.2	12.3	8.2	75.7	2,530.6	2,606.3
Total Commercial	212.6	37.8	43.4	293.8	17,157.6	17,451.4
Consumer	135.2	80.8	231.7	447.7	3,251.3	3,699.0
Total	$347.8	$118.6	$275.1	$741.5	$20,408.9	$21,150.4

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

The following table sets forth non-accrual loans and assets received in satisfaction of loans (repossessed assets). Non-accrual loans include loans greater than $500,000 that are individually evaluated and determined to be impaired, as well as loans less than $500,000 that are delinquent (generally for more than 90 days).

Finance Receivables on Non-accrual Status (dollars in millions)

	March 31, 2013			December 31, 2012		
	Held for Investment	Held for Sale	Total	Held for Investment	Held for Sale	Total

	March 31, 2013			December 31, 2012		
Commercial						
Corporate Finance Other	$126.5	$0.3	$126.8	$148.6	$0.3	$148.9
Corporate Finance SBL	55.5	2.6	58.1	60.3	2.7	63.0
Transportation Finance	18.9		18.9	40.5		40.5
Trade Finance	3.9		3.9	6.0		6.0
Vendor Finance U.S.	52.2		52.2	45.5		45.5
Vendor Finance International	31.9	2.3	34.2	24.3	2.0	26.3
Consumer					1.6	1.6
Total non-accrual loans	$288.9	$5.2	$294.1	$325.2	$6.6	$331.8
Repossessed assets			9.1			9.9
Total non-performing assets			$303.2			$341.7
Accruing loans past due 90 days or more						
Government guaranteed Consumer			$212.6			$231.4
Other			25.8			3.4
Total			$238.4			$234.8

Payments received on non-accrual financing receivables are generally applied first against outstanding principal, though in certain instances where the remaining recorded investment is deemed fully collectible, interest income is recognized on a cash basis.

Impaired Loans

The Company s policy is to review for impairment finance receivables greater than $500,000 that are on non-accrual status. Consumer loans and small-ticket loan and lease receivables that have not been modified in a troubled debt restructuring, as well as short-term factoring receivables, are included (if appropriate) in the reported non-accrual balances above, but are excluded from the impaired finance receivables disclosure below as charge-offs are typically determined and recorded for such loans when they are more than 120-150 days past due.

The following table contains information about impaired finance receivables and the related allowance for loan losses, exclusive of finance receivables that were identified as impaired at the Convenience Date for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*), which are disclosed further below in this note.

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Impaired Loans (dollars in millions)

	March 31, 2013			Quarters Ended March 31, 2013	Quarters Ended March 31, 2012
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Average Recorded Investment

				Quarters Ended March 31,	
With no related allowance recorded:					
Commercial					
Corporate Finance Other	$154.0	$190.6	$	$167.0	$183.1
Corporate Finance SBL	37.1	50.3		38.1	43.0
Transportation Finance	9.3	30.5		10.3	6.3
Trade Finance	11.3	11.3		10.7	48.8
Vendor Finance U.S.	4.5	9.3		4.6	10.2
Vendor Finance International	15.1	27.4		11.8	9.0
With an allowance recorded:					
Commercial					
Corporate Finance Other	93.6	94.9	35.5	98.0	105.8
Corporate Finance SBL	2.7	3.0	1.0	2.6	21.8
Transportation Finance	9.5	9.5	2.7	19.3	29.5
Trade Finance	3.6	3.6	1.0	4.8	10.7
Total Commercial Impaired Loans[(1)]	340.7	430.4	40.2	367.2	468.2
Total Loans Impaired at Convenience Date[(2)]	91.9	170.0	2.3	99.3	180.6
Total	$432.6	$600.4	$42.5	$466.5	$648.8

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

[(1)] *Interest income recorded while the loans were impaired was $4.7 million and $5.1 million for the quarters ended March 31, 2013 and March 31, 2012, respectively, of which $0.3 million and $1.7 million was recognized using the cash-basis method. Interest income recorded for the year ended December 31, 2012 while the loans were impaired was $21.3 million of which $4.3 million was interest recognized using cash-basis method of accounting.*

[(2)] *Details of finance receivables that were identified as impaired at the Convenience Date are presented under Loans and Debt Securities Acquired with Deteriorated Credit Quality.*

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Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. The Company has established review and monitoring procedures designed to identify, as early as possible, customers that are experiencing financial difficulty. Credit risk is captured and analyzed based on the Company s internal probability of obligor default (PD) and loss given default (LGD) ratings. A PD rating is determined by evaluating borrower credit-worthiness, including analyzing credit history, financial condition, cash flow adequacy, financial performance and management quality. An LGD rating is predicated on transaction structure, collateral valuation and related guarantees or recourse. Further, related considerations in determining probability of collection include the following:

- Instances where the primary source of payment is no longer sufficient to repay the loan in accordance with terms of the loan document;
- Lack of current financial data related to the borrower or guarantor;
- Delinquency status of the loan;
- Borrowers experiencing problems, such as operating losses, marginal working capital, inadequate cash flow or business interruptions;
- Loans secured by collateral that is not readily marketable or that is susceptible to deterioration in realizable value; and
- Loans to borrowers in industries or countries experiencing economic instability.

Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable. A specific allowance or charge-off is recorded for the shortfall. In instances where the estimated value exceeds the recorded investment, no specific allowance is recorded. The estimated value is determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract s effective interest rate. In instances when the Company measures impairment based on the present value of expected future cash flows, the change in present value is reported in the provision for credit losses.

The following summarizes key elements of the Company s policy regarding the determination of collateral fair value in the measurement of impairment:

- Orderly liquidation value is the basis for collateral valuation;
- Appraisals are updated annually or more often as market conditions warrant; or
- Appraisal values are discounted in the determination of impairment if the:
- appraisal does not reflect current market conditions; or
- collateral consists of inventory, accounts receivable, or other forms of collateral, which may become difficult to locate, collect or subject to pilferage in a liquidation.

Loans and Debt Securities Acquired with Deteriorated Credit Quality

For purposes of this presentation, finance receivables that were identified as impaired at the Convenience Date are presented separately below. The Company is applying the income recognition and disclosure guidance in ASC 310-30 (*Loans and Debt Securities Acquired with Deteriorated Credit Quality*) to loans considered impaired under FSA at the time of emergence.

Loans Acquired with Deteriorated Credit Quality (dollars in millions)

	March 31, 2013[1]			December 31, 2012[1]		
	Carrying Amount	Outstanding Balance[2]	Allowance for Loan Losses	Carrying Amount	Outstanding Balance[2]	Allowance for Loan Losses
Commercial	$91.9	$170.0	$2.3	$106.7	$260.8	$1.5
Total loans	$91.9	$170.0	$2.3	$106.7	$260.8	$1.5

[1] *The table excludes amounts in Assets Held for Sale with carrying amounts of $1 million and $3 million at March 31, 2013 and December 31, 2012, and outstanding balances of $3 million and $16 million at March 31, 2013 and December 31, 2012.*

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

Troubled Debt Restructurings

The Company periodically modifies the terms of finance receivables in response to borrowers difficulties. Modifications that include a financial concession to the borrower are accounted for as troubled debt restructurings (TDRs).

CIT uses a consistent methodology across all loans to determine if a modification is with a borrower that has been determined to be in financial difficulty and was granted a concession. Specifically, the Company s policies on TDR identification include the following examples of indicators used to determine whether the borrower is in financial difficulty:

- Borrower is in default
- Borrower has declared bankruptcy
- Growing doubt about the borrower s ability to continue as a going concern
- Borrower has insufficient cash flow to service debt
- Borrower is de-listing securities

- Borrower s inability to obtain funds from other sources

n Breach of financial covenants by the borrower

If the borrower is determined to be in financial difficulty, then CIT utilizes the following criteria to determine whether a concession has been granted to the borrower:

n Assets used to satisfy debt are less than CIT s recorded investment in the receivable

n Modification of terms interest rate changed to below market rate

n Maturity date extension at an interest rate less than market rate

n The borrower does not otherwise have access to funding for debt with similar risk characteristics in the market at the restructured rate and terms

n Capitalization of interest

n Increase in interest reserves

n Conversion of credit to Payment-In-Kind (PIK)

n Delaying principal and/or interest for a period of three months or more

n Partial forgiveness of the balance

Modified loans that meet the definition of a TDR are subject to the Company s standard impaired loan policy, namely that non-accrual loans in excess of $500,000 are individually reviewed for impairment, while non-accrual loans less than $500,000 are considered as part of homogenous pools and are included in the determination of the non-specific allowance.

The recorded investment of TDRs at March 31, 2013 and December 31, 2012 was $260.0 million and $289.1 million, of which 29% were on non-accrual in each period. Corporate Finance receivables accounted for 90% of the total TDRs at March 31, 2013 and 91% at December 31, 2012. At March 31, 2013 and December 31, 2012, there were $4.9 million and $6.3 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in TDRs.

The tables that follow present additional information related to modifications qualifying as TDRs that occurred during the quarters ended March 31, 2013 and 2012.

Recorded investment of TDRs that occurred during the quarters ended March 31, 2013 and 2012 (dollars in millions)

	Quarters Ended March 31,	
	2013	**2012**
Commercial		
Corporate Finance Other	$2.9	$
Corporate Finance SBL	1.7	5.9
Vendor Finance U.S.	0.1	2.7
Vendor Finance International	0.6	1.4
Total	$5.3	$10.0

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

	Quarters Ended March 31,	
	2013	**2012**
Commercial		
Corporate Finance Other	$25.0	$
Corporate Finance SBL	0.5	3.6
Vendor Finance U.S.	0.3	
Vendor Finance International	0.3	0.4
Total	$26.1	$4.0

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

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

The financial impact of the various modification strategies that the Company employs in response to borrower difficulties is described below. While the discussion focuses on current quarter amounts, the overall nature and impact of modification programs were comparable in the prior year.

- The nature of modifications qualifying as TDR s, based upon recorded investment at March 31, 2013 and December 31, 2012, was comprised of payment deferral for 91% and 86%, covenant relief and/or other for 9% and 8%, and interest rate reductions and debt forgiveness for an insignificant amount and 6%, respectively;

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

- Interest rate reductions result in lower amounts of interest being charged to the customer, but are a relatively small part of the Company s restructuring programs. Additionally, in some instances, modifications improve the Company s economic return through increased interest rates and fees, but are reported as TDRs due to assessments regarding the borrowers ability to independently obtain similar funding in the market and assessments of the relationship between modified rates and terms and comparable market rates and terms. The weighted average change in interest rates for all TDRs occurring during the year ended 2012 was immaterial;

- Debt forgiveness, or the reduction in amount owed by borrower, results in incremental provision for credit losses, in the form of higher charge-offs. While these types of modifications have the greatest individual impact on the allowance, the combined financial impact for TDRs occurring during the quarter ended March 31, 2013 approximated $0.1 million, as debt forgiveness is a relatively small component of the Company s modification programs; and

- The other elements of the Company s modification programs do not have a significant impact on financial results given their relative size, or do not have a direct financial impact, as in the case of covenant changes.

NOTE 3 ALLOWANCE FOR LOAN LOSSES

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

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

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Total
	Quarter Ended March 31, 2013						
Beginning balance	$229.9	$36.3	$27.4	$ 85.7	$379.3	$	$379.3
Provision for credit losses	12.7	(4.0)	1.3	9.5	19.5		19.5
Other[1]	(2.2)	0.2	(0.7)	(0.6)	(3.3)		(3.3)
Gross charge-offs[2]	(4.2)	(3.3)	(0.8)	(16.0)	(24.3)		(24.3)
Recoveries	2.7		2.6	9.5	14.8		14.8
Allowance balance end of period	$238.9	$29.2	$29.8	$ 88.1	$386.0	$	$386.0
	Quarter Ended March 31, 2012						
Beginning balance	$262.2	$29.3	$29.0	$ 87.3	$407.8	$	$407.8
Provision for credit losses	22.7	7.6	3.8	8.2	42.3	0.3	42.6
Other[1]	(7.9)	0.2	(1.7)	1.0	(8.4)		(8.4)
Gross charge-offs[2]	(18.0)	(7.9)	(1.5)	(16.2)	(43.6)	(0.6)	(44.2)
Recoveries	11.3		0.4	10.2	21.9	0.3	22.2
Allowance balance end of period	$270.3	$29.2	$30.0	$ 90.5	$420.0	$	$420.0

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

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Total
March 31, 2013							
Allowance balance:							
Loans individually evaluated for impairment	$ 36.5	$ 2.7	$ 1.0	$	$ 40.2	$	$ 40.2
Loans collectively evaluated for impairment	200.7	26.5	28.8	87.5	343.5		343.5
Loans acquired with deteriorated credit quality[3]	1.7			0.6	2.3		2.3
Allowance balance end of period	$ 238.9	$ 29.2	$ 29.8	$ 88.1	$ 386.0	$	$ 386.0
Other reserves[1]	$ 17.7	$ 0.4	$ 6.8	$	$ 24.9	$ 0.2	$ 25.1
Finance receivables:							
Loans individually evaluated for impairment	$ 287.4	$ 18.8	$ 14.9	$ 19.6	$ 340.7	$	$ 340.7
Loans collectively evaluated for impairment	8,742.0	1,919.3	2,510.3	4,915.5	18,087.1	3,600.7	21,687.8
	84.9			7.0	91.9		91.9

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Total Commercial	Consumer	Total
Loans acquired with deteriorated credit quality(3)							
Ending balance	$9,114.3	$1,938.1	$2,525.2	$4,942.1	$18,519.7	$3,600.7	$22,120.4
Percent of loans to total loans	41.2%	8.8%	11.4%	22.3%	83.7%	16.3%	100.0%
March 31, 2012							
Allowance balance:							
Loans individually evaluated for impairment	$ 35.9	$ 2.9	$ 3.6	$	$ 42.4	$	$ 42.4
Loans collectively evaluated for impairment	231.5	26.3	26.4	88.9	373.1		373.1
Loans acquired with deteriorated credit quality(3)	2.9			1.6	4.5		4.5
Allowance balance end of period	$ 270.3	$ 29.2	$ 30.0	$ 90.5	$ 420.0	$	$ 420.0
Other reserves(1)	$ 16.8	$ 1.2	$ 7.7	$	$ 25.7	$	$ 25.7
Finance receivables:							
Loans individually evaluated for impairment	$ 339.0	$ 26.0	$ 43.7	$ 19.9	$ 428.6	$	$ 428.6
Loans collectively evaluated for impairment	6,831.5	1,677.4	2,344.5	4,467.3	15,320.7	4,587.7	19,908.4
Loans acquired with deteriorated credit quality(3)	153.5			19.8	173.3	1.2	174.5
Ending balance	$7,324.0	$1,703.4	$2,388.2	$4,507.0	$15,922.6	$4,588.9	$20,511.5
Percent of loans to total loans	35.7%	8.3%	11.6%	22.0%	77.6%	22.4%	100.0%

(1) *Other reserves represents additional credit loss reserves for unfunded lending commitments, letters of credit and for deferred purchase agreements, all of which is recorded in Other Liabilities. Other also includes changes relating to sales and foreign currency translations,*

(2) *Gross charge-offs include $1.5 million that were charged directly to the specific allowance for loan losses for the quarter ended March 31, 2013 related to Corporate Finance. Gross charge-offs include $11.3 million that were charged directly to the specific allowance for loan losses for the March 31, 2012 quarter, of which $6.1 million related to Corporate Finance, $5.0 million related to Transportation Finance, and the remainder related to Trade Finance.*

(3) *Represents loans considered impaired in FSA and are accounted for under the guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality).*

NOTE 4 INVESTMENT SECURITIES

Investments include debt and equity securities. The Company s debt securities primarily include U.S. Treasury securities, U.S. Government Agency securities and foreign government securities that typically mature in 91 days or less, and the carrying value approximates fair value. Equity securities include common stock and warrants.

Investment Securities (dollars in millions)

	March 31, 2013	December 31, 2012
Debt securities available-for-sale	$1,429.0	$ 767.6
Equity securities available-for-sale	14.3	14.3
Debt securities held-to-maturity(1)	189.9	188.4

	March 31, 2013	December 31, 2012
Non-marketable equity investments[2]	90.9	95.2
Total investment securities	$1,724.1	$1,065.5

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

[2] *Non-marketable equity investments include $24.0 million and $27.6 million in limited partnerships at March 31, 2013 and December 31, 2012, respectively, accounted for under the equity method. The remaining investments are carried at cost and include qualified Community Reinvestment Act (CRA) investments, equity fund holdings and shares issued by customers during loan work out situations or as part of an original loan investment.*

Debt and equity securities are classified as available-for-sale (AFS) or held-to-maturity (HTM) based on management s intention on the date of purchase and assessed at each reporting date. Debt securities classified as held-to-maturity represent securities that the Company has both the ability and intent to hold until maturity, and are carried at amortized cost.

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

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

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is OTTI. For debt securities classified as held-to-maturity that are considered to have OTTI that the Company does not intend to sell and it is more likely than not that the Company will not be required to sell before recovery, the OTTI is separated into an amount representing the credit loss, which is recognized in other income in the Consolidated Statement of Operations, and the amount related to all other factors, which is recognized in OCI. OTTI on debt securities and equity securities classified as available-for-sale and non-marketable equity investments are recognized in the Consolidated Statement of Operations in the period determined.

Realized investment gains totaled $2.4 million and $19.0 million for the quarters ended March 31, 2013 and 2012, respectively, and exclude losses from OTTI. OTTI credit-related impairments on equity securities recognized in earnings were not material for the quarters ended March 31, 2013 and March 31, 2012. Impairment amounts in accumulated other comprehensive income (AOCI) were not material at March 31, 2013 or December 31, 2012.

In addition, the Company maintained $5.1 billion and $6.4 billion of interest bearing deposits at March 31, 2013 and December 31, 2012, respectively that are cash equivalents and are classified separately on the balance sheet.

The following table presents interest and dividends on interest bearing deposits and investments:

Interest and Dividend Income (dollars in millions)

	Quarters Ended March 31,	
	2013	2012

	Quarters Ended March 31,	
Interest income interest bearing deposits	$3.5	$4.9
Interest income investments	1.9	2.5
Dividends investments	1.0	0.4
Total interest and dividends	$6.4	$7.8

Securities Available-for-Sale

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

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2013				
Debt securities AFS				
U.S. Treasury Securities	$1,400.5	$	$	$1,400.5
Foreign Government Treasuries	28.5			28.5
Total debt securities AFS	1,429.0			1,429.0
Equity securities AFS	13.1	1.2		14.3
Total securities AFS	$1,442.1	$1.2	$	$1,443.3
December 31, 2012				
Debt securities AFS				
U.S. Treasury Securities	$ 750.3	$	$	$ 750.3
Foreign Government Treasuries	17.3			17.3
Total debt securities AFS	767.6			767.6
Equity securities AFS	13.1	1.2		14.3
Total securities AFS	$ 780.7	$1.2	$	$ 781.9

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Debt Securities Held-to-Maturity

The carrying value and fair value of securities held-to-maturity (HTM) at March 31, 2013 and December 31, 2012 were as follows:

Securities Held To Maturity Carrying Value and Fair Value (dollars in millions)

	Carrying Value	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value

March 31, 2013				
Mortgage-backed securities				
U.S. government-sponsored agency guaranteed	$ 94.7	$1.5	$	$ 96.2
State and municipal	18.0	0.1		18.1
Foreign government	28.1	0.1		28.2
Corporate Foreign	49.1			49.1
Total debt securities held-to-maturity	$189.9	$1.7	$	$191.6
December 31, 2012				
Mortgage-backed securities				
U.S. government-sponsored agency guaranteed	$ 96.5	$2.8	$	$ 99.3
State and municipal	13.1			13.1
Foreign government	28.4			28.4
Corporate Foreign	50.4			50.4
Total debt securities held-to-maturity	$188.4	$2.8	$	$191.2

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

Securities Held To Maturity Amortized Cost and Fair Value Maturities (dollars in millions)

	March 31, 2013		December 31, 2012	
	Carrying Cost	Fair Value	Carrying Cost	Fair Value
Mortgage-backed securities[(1)]				
Total Due after 10 years[(2)]	$ 94.7	$ 96.2	$ 96.5	$ 99.3
State and municipal				
Due after 1 but within 5 years	4.9	5.0	4.9	4.9
Due after 5 but within 10 years	1.3	1.3	1.4	1.4
Due after 10 years[(2)]	11.8	11.8	6.8	6.8
Total	18.0	18.1	13.1	13.1
Foreign government				
Due within 1 year	20.4	20.4	25.5	25.4
Due after 1 but within 5 years	7.7	7.8	2.9	3.0
Total	28.1	28.2	28.4	28.4
Corporate Foreign				
Total Due after 5 but within 10 years	49.1	49.1	50.4	50.4
Total debt securities held-to-maturity	$189.9	$191.6	$188.4	$191.2

(1) *Includes mortgage-backed securities of U.S. federal agencies.*

(2) *Investments with no stated maturities are included as contractual maturities of greater than 10 years. Actual maturities may differ due to call or prepayment rights.*

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

NOTE 5   LONG-TERM BORROWINGS

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

Long-term Borrowings (dollars in millions)

	March 31, 2013			December 31, 2012
	CIT Group Inc.	**Subsidiaries**	**Total**	**Total**
Senior Unsecured Notes[1]	$11,800.3	$ 1.4	$11,801.7	$11,824.0
Secured Borrowings		9,775.3	9,775.3	10,137.8
Total Long-term Borrowings	$11,800.3	$9,776.7	$21,577.0	$21,961.8

[1] *Senior Unsecured Notes comprise $5,250 million of Series C Notes, $6,500 million of Unsecured Notes issued after March 9, 2012 and $51.7 million of Other Debt.*

Revolving Credit Facility

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

The total commitment amount under the Revolving Credit Facility is $2 billion, consisting of a $1.65 billion revolving loan tranche and a $350 million revolving loan tranche that can also be utilized for issuance of letters of credit. The Revolving Credit Facility matures on August 14, 2015 and accrues interest at a per annum rate of LIBOR plus a margin of 2.00% to 2.75% (with no floor) or Base Rate plus a margin of 1.00% to 1.75% (with no floor). The applicable margin is determined by reference to the current long-term senior unsecured, non-credit enhanced debt rating of the Company by S&P and Moody s. The applicable margin for LIBOR loans is 2.50% and the applicable margin for Base Rate loans was 1.50% at March 31, 2013.

The Revolving Credit Facility may be drawn and prepaid at the option of CIT. The unutilized portion of any commitment under the Revolving Credit Facility may be reduced permanently or terminated by CIT at any time without penalty.

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

The Revolving Credit Facility is also subject to a $6 billion minimum consolidated net worth covenant of the Company, tested quarterly, and limits the Company s ability to create liens, merge or consolidate, sell, transfer, lease or dispose of all or substantially all of its assets, grant a negative pledge or make certain restricted payments during the occurrence and continuance of an event of default.

Senior Unsecured Notes

Senior unsecured notes include notes issued under the shelf registration filed in March 2012, and Series C Unsecured Notes. The notes filed under the shelf registration rank equal in right of payment with the Series C Unsecured Notes and the Revolving Credit Facility.

The following tables present the principal amounts of Senior Unsecured Notes issued under the Company s shelf registration and Series C Unsecured Notes by maturity date.

Senior Unsecured Notes (dollars in millions)

Maturity Date	Rate (%)	Date of Issuance	Par Value
May 2017	5.000%	May 2012	$ 1,250.0
August 2017	4.250%	August 2012	1,750.0
March 2018	5.250%	March 2012	1,500.0
May 2020	5.375%	May 2012	750.0
August 2022	5.000%	August 2012	1,250.0
Weighted average and total	4.90%		$ 6,500.0

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Series C Unsecured Notes (dollars in millions)

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

The Indentures for the Senior Unsecured Notes and Series C Unsecured Notes limit the Company s ability to create liens, merge or consolidate, or sell, transfer, lease or dispose of all or substantially all of its assets. Upon a Change of Control Triggering Event as defined in the Indentures for the Senior Unsecured Notes and Series C Unsecured Notes, holders of the Senior Unsecured Notes and Series C Unsecured Notes will have the right to require the Company, as applicable, to repurchase all or a portion of the Senior Unsecured Notes and Series C Unsecured Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of such repurchase.

Other debt of $51.7 million includes senior unsecured notes issued prior to CIT s reorganization including debt issued under the InterNotes retail note program and outstanding borrowings under a local line of credit utilized by a non-U.S. subsidiary.

Secured Borrowings

Set forth below are borrowings and pledged assets primarily owned by consolidated variable interest entities. Creditors of these entities received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT until and unless the related secured borrowings have been fully discharged. These transactions do not meet accounting requirements for sales treatment and are recorded as secured borrowings.

Secured Borrowings and Pledged Assets Summary (dollars in millions)

	March 31, 2013		December 31, 2012	
	Secured Borrowing	**Pledged Assets**	**Secured Borrowing**	**Pledged Assets**
Consumer[1]	$3,536.2	$ 3,682.7	$ 3,630.9	$ 3,772.8
Trade Finance	334.7	1,727.3	350.8	1,523.6
Corporate Finance[1]	924.6	1,166.8	933.9	1,190.6
Vendor Finance U.S.	467.6	650.4	574.6	765.4
Vendor Finance International	969.7	1,062.8	1,028.4	1,182.9
Subtotal Finance Receivables	6,232.8	8,290.0	6,518.6	8,435.3
Transportation Finance Aircraft	2,497.8	4,050.6	2,560.3	4,049.1
Transportation Finance Rail	966.0	1,184.5	976.8	1,185.0
Subtotal Equipment under operating leases[1]	3,463.8	5,235.1	3,537.1	5,234.1
Investment Securities	78.7	79.7	82.1	83.3
Total	$9,775.3	$13,604.8	$10,137.8	$13,752.7

[1] *At March 31, 2013, GSI TRS related borrowings and pledged assets, respectively, of $908.3 million and $988.7 million were included in Consumer, $228.3 million and $403.8 million in Corporate Finance, and $1.07 billion and $2.04 billion in Transportation Finance. The GSI TRS is described in Note 6 Derivative Financial Instruments.*

Variable Interest Entities (VIEs)

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

The most significant types of VIEs that CIT utilizes are 'on balance sheet secured financings of pools of leases and loans originated by the Company. The Company originates pools of assets and sells these to special purpose entities (SPE s), which, in turn, issue debt instruments backed by the asset pools or sell individual interests in the assets to investors. CIT retains the servicing rights and participates in certain cash flows. These VIEs are typically organized as trusts or limited liability companies, and are intended to be bankruptcy remote, from a legal standpoint.

The main risks inherent in these secured borrowing structures are deterioration in the credit performance of the

vehicle s underlying asset portfolio and risk associated with the servicing of the underlying assets.

Investors typically have recourse to the assets in the VIEs and may benefit from other credit enhancements, such as: (1) a reserve or cash collateral account that requires the Company to deposit cash in an account, which will first be used to cover any defaulted obligor payments, (2) over-collateralization in the form of excess assets in the VIE, or (3) subordination, whereby the Company retains a subordinate position in the secured borrowing which would absorb losses due to defaulted obligor payments before the senior certificate holders. The VIE may also enter into derivative contracts in order to convert the debt issued by the VIEs to match the underlying assets or to limit or change the risk of the VIE.

With respect to events or circumstances that could expose CIT to a loss, as these are accounted for as on balance sheet secured financings, the Company records an allowance for loan losses for the credit risks associated with the underlying leases and loans. As these are secured borrowings, CIT has an obligation to pay the debt in accordance with the terms of the underlying agreements.

Generally, third-party investors in the obligations of the consolidated VIE s have legal recourse only to the assets of the VIEs and do not have recourse to the Company beyond certain specific provisions that are customary for secured financing transactions, such as asset repurchase obligations for breaches of representations and warranties. In addition, the assets are generally restricted only to pay such liabilities.

NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

As part of managing economic risk and exposure to interest rate and foreign currency risk, the Company enters into derivative transactions in over-the-counter markets with other financial institutions but does not enter into derivative financial instruments for speculative purposes.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) includes measures to broaden the scope of derivative instruments subject to regulation by requiring clearing and exchange trading of certain derivatives, and imposing margin, reporting and registration requirements for certain market participants. Since the Company does not meet the definition of a Swap Dealer or Major Swap Participant under the Act, its currently new reporting obligations, effective April 10, 2013, will be limited in scope to an insignificant number of derivative transactions executed with its lending customers in order to mitigate their interest rate risk.

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

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

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

	March 31, 2013			December 31, 2012		
	Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount	Asset Fair Value	Liability Fair Value
Qualifying Hedges						
Cross currency swaps net investment hedges	$ 147.4	$	$ (2.3)	$ 151.2	$	$ (6.1)
Foreign currency forward contracts cash flow hedges	9.3		(1.2)	10.6		(0.9)
Foreign currency forward contracts net investment hedges	1,292.7	16.8	(24.9)	1,192.6	1.9	(31.5)
Total Qualifying Hedges	$1,449.4	$16.8	$(28.4)	$1,354.4	$1.9	$(38.5)
Non-Qualifying Hedges						
Cross currency swaps	$ 409.0	$ 3.0	$ (1.3)	$ 551.5	$1.7	$(11.0)
Interest rate swaps[2]	884.1	1.0	(36.0)	809.6	0.6	(39.3)
Written options	332.4		(0.2)	251.4		(0.1)
Purchased options	575.1	0.5		502.7	0.3	
Foreign currency forward contracts	1,580.4	16.4	(11.5)	1,828.2	5.7	(25.7)
TRS	167.5		(3.1)	106.6		(5.8)
Equity Warrants	1.0	0.3		1.0	0.1	
Total Non-qualifying Hedges	$3,949.5	$21.2	$(52.1)	$4,051.0	$8.4	$(81.9)

[1] *Presented on a gross basis*

[2] *Non-qualifying hedges notional amount includes $23.5 million forward-starting customer interest rate swaps, which become effective on September 30, 2013.*

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

Total Return Swap (TRS)

Two financing facilities with Goldman Sachs International (GSI) are structured as total return swaps (TRS), under which amounts available for advances are accounted for as derivatives. Pursuant to applicable accounting guidance, only the unutilized portion of the TRS is accounted for as a derivative and recorded at its estimated fair value.

On October 26, 2011, CIT amended its existing $2.125 billion total return swap facility between CIT Financial Ltd. (CFL) and Goldman Sachs International (GSI) in order to provide greater flexibility for certain assets to be funded under the facility. The size of the existing CFL facility was reduced to $1.5 billion, and the $625 million formerly available under the existing CFL facility was transferred to a new total return swap facility between GSI and CIT TRS Funding B.V. (BV), a wholly owned subsidiary of CIT.

The aggregate notional amounts of the TRS of $167.5 million at March 31, 2013 and $106.6 million at December 31, 2012 represent the aggregate unused portions under the CIT Financial Ltd. (CFL) and CIT TRS Funding B.V. (BV), facilities and constitute derivative financial instruments. These notional amounts are calculated as the maximum aggregate facility commitment amounts, currently $2,125.0 million, less the aggregate actual adjusted qualifying borrowing base outstanding of $1,957.5 million at March 31, 2013 and $2,018.4 million at December 31, 2012 under the CFL and BV facilities. The notional amounts of the derivatives will increase as the adjusted qualifying borrowing base decreases due to repayment of the underlying asset-backed securities (ABS) to investors. If CIT funds additional ABS under the CFL or BV facilities, the aggregate adjusted qualifying borrowing base of the total return swaps will increase and the notional amount of the derivatives will decrease accordingly.

Valuation of the derivatives related to the GSI facilities is based on several factors using a discounted cash flow (DCF) methodology, including:

- CIT s funding costs for similar financings based on current market conditions;
- Forecasted usage of the long-dated CFL and BV facilities through the final maturity date in 2028; and
- Forecasted amortization, due to principal payments on the underlying ABS, which impacts the amount of the unutilized portion.

Based on the Company s valuation, a liability of $3.1 million and $5.8 million was recorded at March 31, 2013 and December 31, 2012, respectively.

The following tables present a summary, as at March 31, 2013 and December 31, 2012, of the gross amounts of recognized financial assets and liabilities; the amounts offset under current GAAP in the consolidated balance sheet; the net amounts presented in the consolidated balance sheet; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount above, and the amount of cash collateral received or pledged.

				Gross amounts not offset in the Consolidated Balance Sheet		
	Gross Amount of Recognized Assets (Liabilities)	Gross Amount Offset in the Consolidated Balance Sheet	Net Amount Presented in the Consolidated Balance Sheet	Derivative Financial Instruments[5]	Cash Collateral Received[5]	Net Amount
March 31, 2013						
Derivative assets[1][6]	$ 38.0	$	$ 38.0	$(24.1)	$(10.5)	$ 3.4
Derivative liabilities[2][6]	(80.5)		(80.5)	24.1	20.7	(35.7)
December 31, 2012						
Derivative assets[3][6]	10.3		10.3	(7.6)	(1.7)	1.0
Derivative liabilities[4][6]	(120.4)		(120.4)	8.0	73.3	(39.1)

(1) Includes $16.8 million of qualifying hedges reported in other assets and $21.2 million of non-qualifying hedges reported in Trading assets at fair value derivatives.

(2) Includes $(28.4) million of qualifying hedges reported in other liabilities and $(52.1) million of non-qualifying hedges reported in Trading liabilities at fair value derivatives.

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

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

(5) The Company s derivative transactions are governed by International Swaps and Derivatives Association (ISDA) agreements that allow for net settlements of certain payments as well as offsetting of all contracts (Derivative Financial Instruments) with a given counterparty in the event of bankruptcy or default of one of the two parties to the transaction. We believe our ISDAs meet the definition of a master netting arrangement or similar agreement for purposes of the above disclosure. In conjunction with the ISDAs, the Company has entered into collateral arrangements with its counterparties which provide for the exchange of cash depending on the change in the market valuation of the derivative contracts outstanding. Such collateral is available to be applied in settlement of the net balance upon the event of default by one of the counterparties.

(6) Substantially all of the derivatives portfolio is under ISDAs.

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

Derivative Instrument Gains and Losses (dollars in millions)

		Quarters Ended March 31,	
Derivative Instruments	**Gain / (Loss) Recognized**	**2013**	**2012**
Qualifying Hedges			
Foreign currency forward contracts cash flow hedges	Other income	$ (0.3)	$ (4.5)
Total Qualifying Hedges		(0.3)	(4.5)
Non Qualifying Hedges			
Cross currency swaps	Other income	6.8	(11.3)
Interest rate swaps	Other income	3.8	(0.9)
Foreign currency forward contracts	Other income	24.7	(16.1)
Equity warrants	Other income	0.2	(0.1)
Total Return Swap (TRS)	Other income	2.7	
Total Non-qualifying Hedges		38.2	(28.4)
Total derivatives-income statement impact		$37.9	$(32.9)

The following table presents the changes in AOCI relating to derivatives:

Changes in AOCI Relating to Derivatives (dollars in millions)

Contract Type	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Quarter Ended March 31, 2013					
Foreign currency forward contracts cash flow hedges	$(0.3)	$	$(0.3)	$ (0.4)	$ (0.1)
Foreign currency forward contracts net investment hedges	(3.2)		(3.2)	19.2	22.4
Cross currency swaps net investment hedges				3.8	3.8
Total	$(3.5)	$	$(3.5)	$ 22.6	$ 26.1
Quarter Ended March 31, 2012					
Foreign currency forward contracts cash flow hedges	$(4.5)	$	$(4.5)	$ (4.0)	$ 0.5
Foreign currency forward contracts net investment hedges	0.2		0.2	(48.1)	(48.3)
Cross currency swaps net investment hedges				(10.2)	(10.2)
Total	$(4.3)	$	$(4.3)	$(62.3)	$(58.0)

Estimated amount of net losses on cash flow hedges recorded in AOCI at March 31, 2013 expected to be recognized in income over the next 12 months is $0.1 million.

NOTE 7 FAIR VALUE

Fair Value Hierarchy

The Company is required to report fair value measurements for specified classes of assets and liabilities. See *Note 1 Business and Summary of Significant Accounting Policies* in our December 31, 2012 Form 10-K for further description of the Company s fair value measurement policy.

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The Company characterizes inputs in the determination of fair value according to the fair value hierarchy. The fair value of the Company s assets and liabilities where the measurement objective specifically requires the use of fair value are set forth in the tables below:

Assets and Liabilities Measured at Fair Value on a Recurring Basis (dollars in millions)

March 31, 2013	Total	Level 1	Level 2	Level 3
Assets				
Debt Securities AFS	$1,429.0	$28.5	$1,400.5	$
Equity Securities AFS	14.3	14.3		
Trading assets at fair value derivatives	21.2		21.2	

	Total	Level 1	Level 2	Level 3
March 31, 2013				
Derivative counterparty assets at fair value	16.8		16.8	
Total Assets	$1,481.3	$42.8	$1,438.5	$
Liabilities				
Trading liabilities at fair value derivatives	$ (52.1)	$	$ (49.0)	$(3.1)
Derivative counterparty liabilities at fair value	(28.4)		(28.4)	
Total Liabilities	$ (80.5)	$	$ (77.4)	$(3.1)
December 31, 2012				
Assets				
Debt Securities AFS	$ 767.6	$17.3	$ 750.3	$
Equity Securities AFS	14.3	14.3		
Trading assets at fair value derivatives	8.4		8.4	
Derivative counterparty assets at fair value	1.9		1.9	
Total	$ 792.2	$31.6	$ 760.6	$
Liabilities				
Trading liabilities at fair value derivatives	$ (81.9)	$	$ (76.1)	$(5.8)
Derivative counterparty liabilities at fair value	(38.5)		(38.5)	
Total	$ (120.4)	$	$ (114.6)	$(5.8)

The following table presents financial instruments for which a non-recurring change in fair value has been recorded:

Assets Measured at Fair Value on a Non-recurring Basis (dollars in millions)

		Fair Value Measurements at Reporting Date Using:			
	Total	Level 1	Level 2	Level 3	Total Gains and (Losses)
Assets					
March 31, 2013					
Assets Held for Sale	$243.7	$	$	$243.7	$ (22.6)
Impaired loans	19.8			19.8	(4.0)
Total	$263.5	$	$	$263.5	$ (26.6)
December 31, 2012					
Assets Held for Sale	$296.7	$	$	$296.7	$(106.9)
Impaired loans	61.0			61.0	(40.9)
Total	$357.7	$	$	$357.7	$(147.8)

Loans are transferred from held for investment (HFI) to held for sale (HFS) at the lower of cost or fair value. At the time of transfer, a write-down of the loan is recorded as a charge-off, if applicable. Once classified as HFS, the amount by which the carrying value exceeds fair value is recorded as a valuation allowance.

Impaired finance receivables (including loans or capital leases) of $500 thousand or greater that are placed on non-accrual status are subject to periodic individual review in conjunction with the Company s ongoing problem loan management (PLM) function. Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract s effective interest rate.

Level 3 Gains and Losses

The tables below set forth a summary of changes in the estimated fair value of the Company s Level 3 financial assets and liabilities measured on a recurring basis:

Changes in Fair Value of Level 3 Financial Assets and Liabilities Measured on a Recurring Basis (dollars in millions)

	Total	Derivatives	Equity Securities Available for Sale
December 31, 2012	$ (5.8)	$ (5.8)	$
Gains or losses realized/unrealized			
Included in Other Income	2.7	2.7	
Other, net			
March 31, 2013	$ (3.1)	$ (3.1)	$
December 31, 2011	$	$	$
Gains or losses realized/unrealized			
Included in Other Income			
Other, net			
March 31, 2012	$	$	$

Level 3 liabilities at March 31, 2013 and December 31, 2012 represent the valuation of the derivatives related to the GSI facilities.

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FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

	March 31, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value

	March 31, 2013		December 31, 2012	
Assets				
Trading assets at fair value derivatives	$ 21.2	$ 21.2	$ 8.4	$ 8.4
Derivative counterparty assets at fair value	16.8	16.8	1.9	1.9
Assets held for sale (excluding leases)	23.0	26.8	58.3	61.9
Loans (excluding leases)	16,207.9	16,495.3	15,685.0	15,919.9
Investment Securities	1,724.1	1,725.8	1,065.5	1,068.3
Other assets subject to fair value disclosure and unsecured counterparty receivables(1)	1,025.2	1,025.2	1,084.0	1,084.0
Liabilities				
Deposits(2)	(10,746.8)	(10,999.8)	(9,721.8)	(9,931.8)
Trading liabilities at fair value derivatives	(52.1)	(52.1)	(81.9)	(81.9)
Derivative counterparty liabilities at fair value	(28.4)	(28.4)	(38.5)	(38.5)
Long-term borrowings(2)	(21,731.4)	(22,813.9)	(22,161.4)	(23,180.8)
Other liabilities subject to fair value disclosure(3)	(1,838.2)	(1,838.2)	(1,953.1)	(1,953.1)

(1) *Other assets subject to fair value disclosure primarily include accrued interest receivable and miscellaneous receivables. These assets have carrying values that approximate fair value generally due to the short-term nature and are classified as level 3. The unsecured counterparty receivables primarily consist of amounts owed to CIT from GSI for debt discount, return of collateral posted to GSI and settlements resulting from market value changes to asset-backed securities underlying the GSI Facilities.*

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

(3) *Other liabilities subject to fair value disclosure include accounts payable, accrued liabilities, customer security and maintenance deposits and miscellaneous liabilities. The fair value of these approximates carrying value and are classified as level 3.*

Assumptions used to value financial instruments are set forth below:

Derivatives The estimated fair values of derivatives were calculated internally using observable market data and represent the net amount receivable or payable to terminate, taking into account current market rates, which represent Level 2 inputs. See *Note 6 Derivative Financial Instruments* for notional principal amounts and fair values.

Investment Securities Debt and equity securities classified as AFS are carried at fair value, as determined either by Level 1 or Level 2 inputs. Debt securities classified as AFS included investments in U.S. Treasury and federal government agency securities and were valued using Level 2 inputs, primarily quoted prices for similar securities. Certain equity securities classified as AFS were valued using Level 1 inputs, primarily quoted prices in active markets, while other equity securities used Level 2 inputs, due to being less frequently traded or having limited quoted market prices. Debt securities classified as HTM are securities that the Company has both the ability and the intent to hold until maturity and are carried at amortized cost and periodically assessed for OTTI, with the cost basis reduced when impairment is deemed to be other-than-temporary. Non-marketable equity investments are generally recorded under the cost or equity method of accounting and are periodically assessed for OTTI, with the net asset values reduced when impairment is deemed to be other-than-temporary. For investments in limited equity partnership interests, we use the net asset value provided by the fund manager as an appropriate measure of fair value.

Assets held for sale Assets held for sale are recorded at lower of cost or fair value on the balance sheet. Most of the assets are subject to a binding contract, current letter of intent or other third-party valuation, which are Level 3 inputs. For the remaining assets, the fair value is generally determined using internally generated valuations or discounted cash flow analysis, which are considered Level 3 inputs. Commercial loans are generally valued individually, while small-ticket commercial loans are valued on an aggregate portfolio basis.

Loans Since there is no liquid secondary market for most loans in the Company s portfolio, the fair value is estimated based on discounted cash flow analyses, which are considered Level 3 inputs. In addition to the characteristics of the underlying contracts, key inputs to the analysis include interest rates, prepayment rates, and credit spreads. For the commercial loan portfolio, the market based credit spread inputs are derived from instruments with comparable

credit risk characteristics obtained from independent third party vendors. For the consumer loan portfolio, the discount spread is derived based on the company s estimate of a market participant s required return on equity that incorporates credit loss estimates based on expected and current default rates. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of the loans. The fair value of loans at March 31, 2013 was $16.5 billion, which is 101.8% of carrying value. The fair value of the commercial loans portfolio was $12.6 billion, 100.2% of carrying value, and the fair value of the consumer portfolio was $3.9 billion, 107.2% of carrying value.

Impaired Loans The value of impaired loans is estimated using the fair value of collateral (on an orderly liquidation basis) if the loan is collateralized, or the present value of expected cash flows utilizing the current market rate for such loan. As these Level 3 unobservable inputs are specific to individual loans / collateral types, management does not believe that sensitivity analysis of individual inputs is meaningful, but rather that sensitivity is more meaningfully assessed through the evaluation of aggregate carrying values of impaired loans relative to contractual amounts owed (unpaid principal balance or UPB) from customers. As of March 31, 2013, the UPB related to impaired loans, including loans for which the Company is applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality), totaled $600.4 million. Including related allowances, these loans are carried at $390.1 million, or 65% of UPB. Of these amounts, $319.4 million and $231.3 million of UPB and carrying value relate to loans with no specific allowance. The difference between UPB and carrying value reflects cumulative charge-offs on accounts remaining in process of collection, FSA discounts and allowances. See *Note 2 Loans* for more information.

Deposits The fair value of deposits was estimated based upon a present value discounted cash flow analysis. Discount rates used in the present value calculation are based on the Company s average current deposit rates for similar terms, which are Level 3 inputs.

Long-term borrowings Unsecured borrowings of approximately $11.8 billion par value at March 31, 2013, were valued based on quoted market prices, which are Level 1 inputs. Approximately $6.4 billion of the secured borrowings at March 31, 2013 utilized market inputs to estimate fair value, which are Level 2 inputs. Where market estimates were not available for approximately $3.7 billion at March 31, 2013, values were estimated using a discounted cash flow analysis with a discount rate approximating current market rates for issuances by CIT of similar term debt, which are Level 3 inputs.

NOTE 8 REGULATORY CAPITAL

The Company and CIT Bank are each subject to various regulatory capital requirements administered by the Federal Reserve Bank (FRB) and the Federal Deposit Insurance Corporation (FDIC).

Quantitative measures established by regulation to ensure capital adequacy require that the Company and CIT Bank each maintain minimum amounts and ratios of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets, subject to any agreement with regulators to maintain higher capital levels. In connection with becoming a bank holding company in December 2008, the Company committed to maintaining a minimum Total Risk Based Capital Ratio of 13%.

The calculation of the Company s regulatory capital ratios are subject to review and consultation with the Federal Reserve Bank, which may result in refinements to amounts reported at March 31, 2013.

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

	CIT		CIT Bank	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Tier 1 Capital				
Total stockholders equity	$ 8,494.4	$ 8,334.8	$ 2,476.8	$ 2,437.2
Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital	41.7	41.1	(0.3)	(0.4)
Adjusted total equity	8,536.1	8,375.9	2,476.5	2,436.8
Less: Goodwill	(345.9)	(345.9)		
Disallowed intangible assets	(27.7)	(32.7)		
Investment in certain subsidiaries	(33.5)	(34.4)		
Other Tier 1 components[(1)]	(64.7)	(68.0)		(14.3)
Tier 1 Capital	8,064.3	7,894.9	2,476.5	2,422.5
Tier 2 Capital				
Qualifying allowance for credit losses and other reserves[(2)]	411.0	402.6	155.0	141.2
Less: Investment in certain subsidiaries	(33.5)	(34.4)		
Other Tier 2 components[(3)]	0.5	0.5	0.2	0.3
Total qualifying capital	$ 8,442.3	$ 8,263.6	$ 2,631.7	$ 2,564.0
Risk-weighted assets	$ 49,313.4	$ 48,580.1	$ 12,383.4	$ 11,289.1
Total Capital (to risk-weighted assets):				
Actual	17.1%	17.0%	21.3%	22.7%
Required Ratio for Capital Adequacy Purposes	13.0%[(4)]	13.0%[(4)]	8.0%	8.0%
Tier 1 Capital (to risk-weighted assets):				
Actual	16.4%	16.3%	20.0%	21.5%
Required Ratio for Capital Adequacy Purposes	4.0%	4.0%	4.0%	4.0%
Tier 1 Leverage Ratio:				
Actual	18.4%	18.3%	19.4%	20.2%
Required Ratio for Capital Adequacy Purposes	4.0%	4.0%	4.0%	4.0%

(1) *Includes the portion of net deferred tax assets that does not qualify for inclusion in Tier 1 capital based on the capital guidelines, the Tier 1 capital charge for nonfinancial equity investments and the Tier 1 capital deduction for net unrealized losses on available-for-sale marketable securities (net of tax).*

(2) *Other reserves represents additional credit loss reserves for unfunded lending commitments, letters of credit, and deferred purchase agreements, all of which are recorded in Other Liabilities.*

(3) *Banking organizations are permitted to include in Tier 2 Capital up to 45% of net unrealized pretax gains on available-for-sale equity securities with readily determinable fair values.*

(4) *The Company committed to maintaining certain capital ratios above regulatory minimum levels.*

NOTE 9 INCOME TAXES

The Company s first quarter tax provision of $15.2 million decreased from $44.2 million in the prior quarter and $40.3 million in the year-ago quarter. The first quarter provision primarily reflects income tax expense on the earnings of certain international operations and state tax expense in the U.S. Included in the first quarter tax provision is approximately $5.3 million of net discrete tax benefits which primarily relate to incremental tax benefits associated with favorable settlements of prior year international tax audits partially offset by the establishment of valuation allowances against certain international net deferred tax assets. The decreases from prior periods primarily reflect a reduction in foreign tax expense driven by lower international earnings and several discrete items. The $40.3 million provision for the first quarter of 2012 was primarily driven by income tax expense on the earnings from international operations and no income tax benefit recorded on the domestic losses.

The changes in the effective tax rate each period is impacted by a number of factors, including the relative mix of domestic and foreign earnings, valuation allowances in various jurisdictions, and discrete items. As a result, the effective tax rate may not be indicative of the rate for near term future periods. The actual year-end 2013 effective tax rate may vary from the currently projected tax rate due to the changes in the factors mentioned above.

As of December 31, 2012, CIT had cumulative U.S. federal net operating loss carry-forwards (NOLs) of $4.9 billion, of which $2.3 billion was related to pre-emergence losses. These NOLs will expire beginning in 2027 through 2032. The Company generated a modest amount of domestic taxable earnings in the first quarter of 2013, which marginally decreased the U.S. federal net operating loss carry-forwards and its respective valuation allowance. The Company has not recognized any tax benefit on its prior year domestic losses due to uncertainties related to the ability to realize its net deferred tax assets in the future. Pursuant to Section 382 of the Internal Revenue Code, the Company is generally subject to a $230 million annual limitation on the use of its $2.3 billion of pre-emergence NOLs. NOLs arising in post-emergence years are not subject to this limitation absent another ownership change as defined by the Internal Revenue Service (IRS) for U.S. tax purposes.

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

While certain foreign entities with net operating loss carry-forwards have been profitable, the Company continues to record a full valuation allowance on these entities net deferred tax assets due to their history of losses. A sustained period of profitability in each of these foreign entities is required before the Company would change its judgment regarding the need for valuation allowances against the net deferred tax assets. Management will evaluate reversing the valuation allowances of each foreign reporting entity later this year provided there is continued improvement in the operating results.

Liabilities for Uncertain Tax Positions

The Company s liability for uncertain tax positions totaled $317.6 million at March 31, 2013 and $317.8 million at December 31, 2012. Management estimates that this liability may be reduced by up to $5 million within the next twelve months. The Company s accrued liability for interest and penalties totaled $12.0 million at March 31, 2013 and $12.6 million at December 31, 2012. The Company recognizes accrued interest and penalties on unrecognized tax benefits in income tax expense.

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

NOTE 10 STOCKHOLDERS EQUITY

Accumulated Other Comprehensive Income/(Loss)

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

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

	March 31, 2013			December 31, 2012		
	Gross Unrealized	Income Taxes	Net Unrealized	Gross Unrealized	Income Taxes	Net Unrealized
Changes in benefit plan net gain/(loss) and prior service (cost)/credit	$(43.6)	$ 0.3	$(43.3)	$(43.5)	$ 0.4	$(43.1)
Foreign currency translation adjustments	(41.6)		(41.6)	(36.6)		(36.6)
Changes in fair values of derivatives qualifying as cash flow hedges	(0.2)		(0.2)	(0.1)		(0.1)
Unrealized net gains (losses) on available for sale securities	3.0	(1.2)	1.8	3.5	(1.4)	2.1
Total accumulated other comprehensive loss	$(82.4)	$(0.9)	$(83.3)	$(76.7)	$(1.0)	$(77.7)

The following table details the changes in the components of Accumulated Other Comprehensive Loss:

Changes in Accumulated Other Comprehensive Income (Loss) by Component[1] (dollars in millions)

	Changes in benefit plan net gain/(loss) and prior service (cost)/credit	Foreign currency translation adjustments	Unrealized net gains (losses) on available for sale securities	Changes in fair values of derivatives qualifying as cash flow hedges	Total accumulated other comprehensive income (AOCI)
Balance as of December 31, 2012	$(43.1)	$(36.6)	$ 2.1	$(0.1)	$(77.7)
AOCI activity before reclassifications	(0.2)	(8.2)	(0.3)	(0.4)	(9.1)
Amounts reclassed from AOCI		3.2		0.3	3.5
Net current period AOCI	(0.2)	(5.0)	(0.3)	(0.1)	(5.6)
Balance as of March 31, 2013	$(43.3)	$(41.6)	$ 1.8	$(0.2)	$(83.3)
Balance as of December 31, 2011	$(54.8)	$(28.2)	$ 1.1	$(0.7)	$(82.6)
AOCI activity before reclassifications		1.1	0.6	(4.1)	(2.4)
Amounts reclassed from AOCI	0.4	(0.2)		4.5	4.7
Net current period AOCI	0.4	0.9	0.6	0.4	2.3
Balance as of March 31, 2012	$(54.4)	$(27.3)	$ 1.7	$(0.3)	$(80.3)

[1] *All amounts are net of tax.*

Other Comprehensive Income/(Loss)

The amounts included in the Statement of Comprehensive Income (Loss) are net of income taxes. The income taxes associated with changes in benefit plans net gain/(loss) and prior service (cost)/credit were not significant for the quarter ended March 31, 2013 and were $1.7 million for the quarter ended March 31, 2012. The change in income taxes associated with net unrealized gains on available for sale securities totaled approximately ($0.2) million for the quarter ended March 31, 2013 and $0.8 million for the March 31, 2012 quarter. There were no income taxes associated with changes in fair values of derivatives qualifying as cash flow hedges for the quarters ended March 31, 2013 and March 31, 2012.

The changes in benefit plans net gain/(loss) and prior service (cost)/credit reclassification adjustments impacting net income was insignificant for the quarter ended March 31, 2013 and was $0.4 million for the quarter ended March 31, 2012. The reclassification adjustments for unrealized gains (losses) on investments recognized through income were not significant for the quarters ended March 31, 2013 and 2012.

The Company has operations in Canada, Europe and other countries. The functional currency for foreign operations is generally the local currency. The value of assets and liabilities of these operations is translated into U.S. dollars at the rate of exchange in effect at the balance sheet date.

Revenue and expense items are translated at the average exchange rates during the year. The resulting foreign currency translation gains and losses, as well as offsetting gains and losses on hedges of net investments in foreign operations, are reflected in AOCI. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the functional currency are included in earnings.

Reclassifications out of Accumulated Other Comprehensive Income For Quarters Ended (dollars in millions)

	March 31, 2013			March 31, 2012			Affected Income Statement line item
	Gross Amount	Tax	Net Amount	Gross Amount	Tax	Net Amount	
Changes in benefit plan net gain/(loss) and prior service (cost)/credit							
(Gains)/Losses	$	$	$	$ 2.1	$(1.7)	$ 0.4	Expenses
Foreign currency translation adjustments							
(Gains)/Losses	3.2		3.2	(0.2)		(0.2)	Other Income
Changes in fair value of derivatives qualifying as cash flow hedges							
(Gains)/Losses	0.3		0.3	4.5		4.5	Other Income
Total Reclassifications out of AOCI	$3.5	$	$3.5	$ 6.4	$(1.7)	$ 4.7	

NOTE 11 COMMITMENTS

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

Commitments (dollars in millions)

	March 31, 2013			December 31, 2012
	Due to Expire			
	Within One Year	After One Year	Total Outstanding	Total Outstanding
Financing Commitments				
Financing and leasing assets	$ 727.5	$3,076.3	$3,803.8	$3,301.2
Letters of credit				
Standby letters of credit	41.9	246.1	288.0	238.5
Other letters of credit	45.0		45.0	53.6
Guarantees				
Deferred purchase credit protection agreements	1,694.0		1,694.0	1,841.5
Guarantees, acceptances and other recourse obligations	9.8	5.6	15.4	17.4
Purchase and Funding Commitments				
Aerospace manufacturer purchase commitments	622.5	8,445.2	9,067.7	9,168.3
Rail and other manufacturer purchase commitments	528.5	492.1	1,020.6	927.4
Commercial loan portfolio purchase commitment	62.7		62.7	1,258.3

Financing Commitments

Financing commitments, referred to as loan commitments, or lines of credit, reflect CIT s agreements to lend to its customers, subject to the customers compliance with contractual obligations. Included in the above are commitments that have been extended to and accepted by customers or agents, but on which the criteria for funding have not been completed of $546 million at March 31, 2013 and $325 million at December 31, 2012. The prior period has been conformed to the current period presentation. The table above includes approximately $0.8 billion of commitments at March 31, 2013 and $0.6 billion at December 31, 2012 for instances where the customer is not in compliance with contractual obligations, and therefore CIT does not have the contractual obligation to lend. As financing commitments may not be fully drawn, expire unused, be reduced or cancelled at the customer s request, and require the customer to be in compliance with certain conditions, total commitment amounts do not necessarily reflect actual future cash flow requirements.

At March 31, 2013, substantially all financing commitments were senior facilities. Most of the Company s undrawn and available financing commitments are in Corporate Finance.

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The table above excludes uncommitted revolving credit facilities extended by Trade Finance to its clients for working capital purposes. In connection with these facilities, Trade Finance has the sole discretion throughout the duration of these facilities to determine the amount of credit that may be made available to its clients at any time and whether to honor any specific advance requests made by its clients under these credit facilities.

The table above also excludes unused cancelable lines of credit to customers in connection with select third-party vendor programs, which may be used solely to finance additional product purchases, the total of which was not material for either period presented. These uncommitted lines of credit can be reduced, canceled or denied funding by CIT at any time without notice. Management s experience indicates that customers related to vendor programs typically exercise their line of credit only when they need to purchase new products from a vendor and do not seek to exercise their entire available line of credit at any point in time.

Letters of Credit

In the normal course of meeting the needs of clients, CIT sometimes enters into agreements to provide financing and letters of credit. Standby letters of credit obligate the issuer of the letter of credit to pay the beneficiary if a client on whose behalf the letter of credit was issued does not meet its obligation. These financial instruments generate fees and involve, to varying degrees, elements of credit risk in excess of amounts recognized in the Consolidated Balance Sheets. To minimize potential credit risk, CIT generally requires collateral and in some cases additional forms of credit support from the client.

Deferred Purchase Agreements

A Deferred Purchase Agreement (DPA) is provided in conjunction with factoring, whereby CIT provides a client with credit protection for trade receivables without purchasing the receivables. The trade terms are generally sixty days or less. If the client s customer is unable to pay an undisputed receivable solely as the result of credit risk, then CIT purchases the receivable from the client. The outstanding amount of DPAs is the maximum potential exposure that CIT would be required to pay under all DPAs. This maximum amount would only occur if all receivables subject to DPAs default in the manner described above, thereby requiring CIT to purchase all such receivables from the DPA clients.

The methodology used to determine the DPA liability is similar to the methodology used to determine the allowance for loan losses associated with the finance receivables, which reflects embedded losses based on various factors, including expected losses reflecting the Company s internal customer and facility credit ratings. The liability recorded in Other Liabilities related to the DPAs totaled $6.3 million and $5.6 million at March 31, 2013 and December 31, 2012, respectively.

Purchase and Funding Commitments

CIT s purchase commitments relate primarily to purchases of commercial aircraft and rail equipment. Commitments to purchase new commercial aircraft are predominantly with Airbus Industries (Airbus), The Boeing Company (Boeing) and Embraer S.A. (Embraer). CIT may also commit to purchase an aircraft directly with an airline. Aerospace equipment purchases are contracted for specific models, using baseline aircraft specifications at fixed prices, which reflect discounts from fair market purchase prices prevailing at the time of commitment. The delivery price of an aircraft may change depending on final specifications. Equipment purchases are recorded at the delivery date. The estimated commitment amounts in the preceding table are based on contracted purchase prices reduced for pre-delivery payments to date and exclude buyer furnished equipment selected by the lessee. Pursuant to existing contractual commitments, 160 aircraft remain to be purchased from Airbus, Boeing and Embraer at March 31, 2013. Aircraft deliveries are scheduled periodically through 2020. Commitments exclude unexercised options to order additional aircraft.

The Company s rail business entered into commitments to purchase railcars from multiple manufacturers. Pursuant to these contractual commitments, at March 31, 2013, approximately 7,800 railcars remain to be purchased with deliveries through 2015. All railcar purchase commitments currently have lease commitments. Rail equipment purchase commitments are at fixed prices subject to price increases for certain materials.