CIT GROUP INC
Form 10-K
February 28, 2014

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

FORM 10-K

|X| Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2013

or

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

Commission File Number: 001-31369

CIT GROUP INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

At February 21, 2014, there were 195,397,208 shares of CIT s common stock, par value $0.01 per share, outstanding.

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

The aggregate market value of voting common stock held by non-affiliates of the registrant, based on the New York Stock Exchange Composite Transaction closing price of Common Stock ($46.63 per share, 200,467,936 shares of common stock outstanding), which occurred on June 30, 2013, was $9,347,819,855. For purposes of this computation, all officers and directors of the registrant are deemed to be affiliates. Such determination shall not be deemed an admission that such officers and directors are, in fact, affiliates of the registrant.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement relating to the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III hereof to the extent described herein.

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PART ONE

Item 1: Business Overview

BUSINESS DESCRIPTION

CIT Group Inc., together with its subsidiaries (we , our , CIT or the Company) has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle market companies in a wide variety of industries and offer vendor, equipment, commercial and structured financing products, as well as factoring services. We had over $36 billion of financing and leasing assets at December 31, 2013. CIT became a bank holding company (BHC) in December 2008 and a financial holding company (FHC) in July 2013. CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956 (Bank Act).

Our primary bank subsidiary is CIT Bank (the Bank), a state chartered bank headquartered in Salt Lake City, Utah, which offers commercial financing and leasing products as well as a suite of savings options. The Bank is subject to regulation and examination by the Federal Deposit Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI). As of December 31, 2013, over 40% of CIT s commercial financing and leasing assets were in the Bank and essentially all new U.S. business volume and asset growth is being originated by the Bank.

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

Products and Services	
Account receivables collection	Factoring services
Acquisition and expansion financing	Financial risk management
Asset management and servicing	Import and export financing
Asset-based loans	Insurance services
Credit protection	Operating and capital leases
Debt restructuring	Letters of credit / trade acceptances
Debt underwriting and syndication	Mergers and acquisition advisory services (M&A)
Debtor-in-possession / turnaround financing	Secured lines of credit
Deposits (certificates of deposit, savings accounts, individual retirement accounts)	Vendor financing
Enterprise value and cash flow loans	

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

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

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

BUSINESS SEGMENTS

CIT delivers customer financing products and services through five reportable business segments.

SEGMENT	MARKET AND SERVICES
Corporate Finance	Lending, leasing and other financial and advisory services to small and middle-market companies across select industries.
Transportation Finance	Large ticket equipment leases and other secured financing, primarily to companies in aerospace, rail and maritime industries.
Trade Finance	Factoring, receivables management products and secured financing to retail supply chain companies.
Vendor Finance	Partners with manufacturers, distributors, dealers and resellers to deliver financing and leasing solutions to end-user customers for the acquisition of equipment.
Consumer	Government-guaranteed student loan portfolios, which are in run-off.

Financial information about our segments and our geographic areas of operation are located in *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Item 8. Financial Statements and Supplementary Data (Note 23 Business Segment Information).*

CORPORATE FINANCE

Corporate Finance provides a range of financing options and offers advisory services to small and medium size companies in the U.S. and Canada and has a specialized lending unit in the U.K. focused on financial sponsors in Europe. Corporate Finance core products include asset-based and cash flow lending, fee-based advisory products (e.g., financial advisory, M&A) for middle-market customers, equipment leasing and financing, and commercial real estate financing.

Corporate Finance offers a product suite primarily composed of senior secured loans collateralized by accounts receivable, inventory, machinery & equipment and intangibles to finance various needs of our customers, such as working capital, plant expansion, acquisitions and recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. We also have a portfolio of SBA 7(a) guaranteed loans, most of which are in assets held for sale (AHFS), which are partially guaranteed by the U.S. Small Business Administration (SBA).

Middle Market Lending business provides financing to customers in a wide range of industries (including Commercial & Industrial, Communications, Media & Entertainment, Healthcare, and Energy):

- Commercial & Industrial includes wholesale trade (both durable and non-durable goods), business services, miscellaneous retail, chemicals and allied products, food and kindred products and numerous other industries.

- Communications, Media, & Entertainment includes broadcast, cable, entertainment, gaming, sports franchise, telephony, wireless and tower, and other related industries.

- Healthcare includes skilled nursing facilities, home health and hospice companies, acute care hospitals, dialysis companies and outpatient services, among others.

- Energy includes conventional and renewable power generation, coal mining, oil and gas production, and energy services.

Commercial Real Estate Finance (REF) provides senior secured commercial real estate loans to developers and other commercial real estate professionals. REF focuses on stable, cash flowing properties and originates construction loans to highly experienced and well capitalized developers.

Equipment Finance (EF) provides commercial equipment financing solutions for middle market companies in a wide range of industries. EF structures transactions that consider our customers unique requirements and industry characteristics, while designing specific solutions that add value to our customers businesses.

Key risks faced by Corporate Finance are credit risk, business risk and to a lesser extent, asset risk. Risks associated with secured financings relate to the ability of the borrower to repay its loan and the value of the collateral underlying the loan should the borrower default on its obligations.

Corporate Finance is exposed to business risk related to its ability to profitably originate and price new business. Demand for CIT s Corporate Finance services is broadly affected by the level of economic growth and is more specifically affected by the level of economic activity in CIT s target industries. If demand for CIT s products and services declines, then new business volume originated by CIT Corporate Finance will decline. Likewise, changes in supply and demand of CIT s products and services also affect the pricing CIT can command from the market.

Specific to syndications activity, Corporate Finance is exposed to business risk related to fee income from syndication/club deal activity. In such transactions CIT earns fees for arranging and selling loan exposures to other lenders. Under adverse market circumstances, CIT would be exposed to risk arising from the inability to sell loans on to other lenders, resulting in lower fee income and higher than expected credit exposure to certain borrowers.

In our small business lending unit, the collateral in most instances consists of real estate, which may be subject to fluctuations in market value. If it was determined that an SBA loan was not underwritten or serviced correctly, the SBA guarantee would not be partially or fully honored.

TRANSPORTATION FINANCE

Transportation Finance is a leading provider of aircraft and railcar leasing and financing solutions to operators and suppliers in the global aviation and railcar industries. We also provide lending and other financial products and services to companies in the transportation sector, including those in the business aircraft, maritime, aerospace and defense industries. Transportation Finance operates through five specialized business units: Commercial Air, Rail, Business Air, Transportation Lending, and Maritime Finance, with Commercial Air and Rail accounting for the vast majority of the segment s assets, revenues and earnings. Maritime Finance was launched as a distinct business in the fourth quarter of 2012, although CIT had periodically financed assets within the sector on a small scale.

We have achieved a leadership position in transportation finance by leveraging our deep industry experience and core strengths in technical asset management, customer relationship management, and credit analysis. We have extensive experience in managing equipment over its full life cycle, including purchasing new equipment, estimating residual values, and remarketing by re-leasing or selling equipment. Transportation Finance is a global business, with leasing operations (primarily aerospace) around the world and expanding lending platforms.

Commercial Air provides aircraft leasing and lending, asset management, aircraft valuation and advisory services. The unit s primary clients include global and regional airlines around the world. Offices are located in the U.S., Europe and Asia. As of December 31, 2013, our commercial aerospace financing and leasing portfolio consists of over 300 aircraft with a weighted average age of 5 years, which are placed with about 100 clients.

Rail leases railcar equipment to railroads and shippers throughout North America, and now Europe resulting from a 2014 acquisition. *(See Item 8. Financial Statements and Supplementary Data, Note 28 Subsequent Events* for further information.) We serve approximately 500 customers, including all of the U.S. and Canadian Class I railroads (railroads with annual revenues of at least $250 million) and other non-rail companies, such as shippers and power and energy companies. Our operating lease fleet consists of more than 100,000 railcars and approximately 350 locomotives. Railcar types include covered hopper cars used to

ship grain and agricultural products, plastic pellets and cement, gondola cars for coal, steel coil and mill service, open hopper cars for coal and aggregates, center beam flat cars for lumber, boxcars for paper and auto parts, tank cars for energy products and chemicals.

Business Air offers financing and leasing programs for corporate and private owners of business jet aircraft, primarily in the U.S.

Transportation Lending provides loan and lease financing solutions to companies within the aerospace, defense and other transportation sectors, directly or through financial sponsors and intermediaries.

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

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

The primary risks for Transportation Finance are asset risk (resulting from ownership of the equipment on operating lease) and credit risk. Asset risk arises from fluctuations in supply and demand for underlying equipment leased. Transportation Finance invests in long-lived equipment; commercial aircraft have economic useful lives of approximately 20-25 years and railcars/locomotives have economic useful lives of approximately 35-50 years. This equipment is then leased to commercial end-users with average lease terms of approximately 5-10 years. CIT is exposed to the risk that, at the end of the lease term, the value of the asset will be lower than expected, resulting in reduced future lease income over the remaining life of the asset or a lower sale value.

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

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

See *Concentrations* section of *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* and *Note 19 Commitments of Item 8. Financial Statements and Supplementary Data* for further discussion of our aerospace and rail portfolios.

TRADE FINANCE

Trade Finance offers a full range of domestic and international customized credit protection, lending and outsourcing services that include working capital and term loans, factoring, receivables management, bulk purchases of accounts receivable, import and export financing and letter of credit programs to clients. A client (typically a manufacturer or importer of goods) is the counterparty to any factoring agreement, financing agreement, or receivables purchasing agreement that has been entered into with Trade Finance. Trade Finance services businesses that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Trade Finance also can arrange for letters of credit, collateralized by accounts receivable and other assets, to be opened for the benefit of its clients suppliers. Although primarily U.S. based, Trade Finance also conducts business with clients and their customers internationally. Revenue is generated from commissions earned on factoring and related activities, interest on loans and other service fees.

Trade Finance typically provides financing to its clients through the factoring of their accounts receivable owed to them by their customers. A customer (typically a wholesaler or retailer) is the account debtor and obligor on trade accounts receivable that have been factored with and assigned to the factor. The assignment of accounts receivable by a client to a factor is traditionally known as factoring and results in payment by the client of a factoring commission that is commensurate with the underlying degree of credit risk and recourse, and which is generally a percentage of the factored receivables or sales volume. In addition to factoring commission and fees, Trade Finance may advance funds to its clients, typically in an amount up to 90% of eligible accounts receivable, charging interest on the advance, and satisfying the advance by the collection of factored accounts receivable. Trade Finance often integrates its clients operating systems with its own operating systems to facilitate the factoring relationship.

Clients use the products and services of Trade Finance for various purposes, including improving cash flow, mitigating or reducing customer credit risk, increasing sales, improving management systems information and outsourcing their bookkeeping, collection, and other receivable processing to Trade Finance.

The products and services provided by Trade Finance entail two dimensions of credit risk, customer and client. The largest risk for Trade Finance is customer credit risk in factoring transactions. Customer risk relates to the financial inability of a customer to pay on undisputed trade accounts receivable due from such

customer to the factor. While smaller than customer credit exposure, there is also client credit risk in providing cash advances to factoring clients. Client risk relates to a decline in the credit worthiness of a borrowing client, their consequent inability to repay their loan and the possible insufficiency of the underlying collateral (including the aforementioned customer accounts receivable) to cover any loan repayment shortfall. At December 31, 2013, client credit risk accounted for less than 10% of total Trade Finance credit exposure while customer credit risk accounted for the remainder.

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

VENDOR FINANCE

Vendor Finance develops customized business solutions for small businesses and middle market companies, providing equipment financing and value-added services. Working with manufacturers, distributors and product resellers across multiple industries, we develop financing programs and financial solutions tailored to the commercial end-user customer s needs that can enable increased sales by our vendor partners.

We provide customer-centric programs ranging from structured to referral programs. A key part of these partnership programs is integrating with the go-to-market strategy of our vendor partners and leveraging the vendor partners sales process, thereby maximizing efficiency and effectiveness.

These alliances allow our partners to focus on core competencies, reduce capital needs and drive incremental sales volume. We offer our partners (1) financing to end-user customers for purchase or lease of products, (2) enhanced sales tools such as asset management services, loan processing and real-time credit adjudication, and (3) tailored customer service.

Vendor Finance end-user customers are diverse, ranging from sole proprietors to multi-national corporations, but we are largely focused on small and middle-market customers across a diversified set of industries.

Vendor Finance finances three primary types of equipment, information technology, telecom, and office equipment, but in some geographies, Vendor Finance also finances other types of equipment, such as healthcare, transportation, industrial equipment, printing and construction.

Vendor Finance offers in-country origination and servicing centers in certain major markets around the world, industry and geographic expertise, and dedicated sales and credit teams. Our products include standard and customized financial solutions that meet vendor partner and end-user customer requirements, including asset-backed loans, capital leases and usage-based programs. During 2013 we progressed on our strategy to rationalize subscale international platforms, including a review of the European business. In total we plan to exit over 20 countries across Europe, Latin America and Asia. As a result of these decisions, we have sold various portfolios and moved other portfolios of financing and leasing assets to AHFS.

Key risks faced by Vendor Finance are credit risk, asset risk and business risk. The primary risk in Vendor Finance is credit risk, which arises through exposures to commercial customers in equipment leasing and financing transactions and their ability to repay their loans.

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

Vendor Finance is also subject to business risk related to new business volume and pricing of new business. New business volume is impacted by economic conditions that affect business growth and expenditures, ultimately affecting global demand for essential-use equipment in CIT s areas of expertise. Additionally, volume is influenced by CIT s ability to maintain and develop relationships with its vendor partners. With regard to pricing, CIT s Vendor Finance business is subject to potential threats from competitor activity or disintermediation by vendor partners, which could negatively affect CIT s margins.

CONSUMER

Our Consumer segment consists of a portfolio of U.S. Government-guaranteed student loans that is in run-off and was transferred to AHFS at the end of 2013. CIT s risk relates mainly to the ability of the borrower to repay its loan and is primarily limited to the portion, generally 2% 3%, that is not guaranteed by the U.S. Government. CIT also has a risk that it will be denied payment under the guarantee if it is determined that CIT committed a violation of applicable law or regulation in connection with its origination or servicing of the loan. CIT does not consider this risk material.

See *Concentrations* section of *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* for further information on our student lending portfolios.

CORPORATE AND OTHER

Certain activities are not attributed to our operating segments and are included in Corporate and Other. A significant item for 2013 and 2012 was unallocated interest expense, primarily related to corporate liquidity costs. In 2013, Corporate and Other included a sizable legal settlement, while in 2012 and 2011, Corporate and Other included net losses on debt extinguishments and 2011 also contained prepayment penalties associated with debt repayments. Other items include mark-to-market adjustments on non-qualifying derivatives and restructuring charges for severance and facilities exit activities.

CIT BANK

CIT Bank (Member FDIC) is a wholly-owned subsidiary of CIT Group Inc. that is regulated by the FDIC and the UDFI. Since its founding in 2000, the Bank has expanded its assets, deposits and product offerings. The Bank continued to grow in 2013, with increased deposits, expanded business activities, and new initiatives that include maritime financing, to supplement other recent new activities such as equipment financing, commercial real estate lending and railcar leasing.

The Bank raises deposits from retail and institutional investors primarily through its online bank (www.BankOnCIT.com) and through broker channels in order to fund its lending and leasing activities. Its existing suite of deposit products include Certificates of Deposit (Achiever, Jumbo, and Term), and Savings Accounts, and it added Individual Retirement Accounts in 2013. In 2013, the bank also closed a secured funding facility.

The Bank s assets are primarily commercial loans and leases of CIT s commercial segments. The commercial loans and leases originated by the Bank are reported in the respective commercial segment (i.e. Corporate Finance, Transportation Finance, Vendor Finance and Trade Finance). The Bank s growing operating lease portfolio primarily consists of railcars. In 2013, the Bank originated nearly all of CIT s U.S. new business volumes.

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

EMPLOYEES

CIT employed approximately 3,240 people at December 31, 2013, of which approximately 2,530 were employed in the U.S. and 710 outside the U.S.

COMPETITION

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

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

Consolidation and convergence significantly increased the geographic reach of some of our competitors and hastened the globalization of financial services markets. To take advantage of some of our most significant international challenges and opportunities, we must continue to compete successfully with financial institutions that are larger, have better access to low cost funding, and may have a stronger local presence and longer operating history outside the U.S.

As a result, we tend not to compete on price, but rather on industry experience, asset and equipment knowledge, and customer service. The regulatory environment in which we and/or our customers operate also affects our competitive position.

2009 RESTRUCTURING

On November 1, 2009, the parent company (CIT Group Inc.) and one non-operating subsidiary, CIT Group Funding Company of Delaware LLC, filed prepackaged voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. CIT emerged from bankruptcy on December 10, 2009. None of the documents filed with the bankruptcy court are incorporated by reference into this Form 10-K and such documents should not be considered or relied on in making any investment decisions involving our common stock or other securities.

The information contained in this annual report about CIT for the years ended December 31, 2013, 2012, 2011 and 2010, reflect the impact of fresh start accounting adjustments, and is not necessarily comparable with information provided for prior periods. Further discussions of these events were disclosed in our Form 10-K for the year ended December 31, 2011, *Item 8. Financial Statements and Supplementary Data (Notes 1 and 26).*

REGULATION

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

CIT Capital Securities L.L.C., a Delaware limited liability company, is a broker-dealer licensed by the Financial Industry Regulatory Authority (FINRA), and is subject to regulation by FINRA and the Securities and Exchange Commission (SEC). Certain of our subsidiaries are subject to regulation by other governmental agencies. Student Loan Xpress, Inc., a Delaware corporation, conducts its business through various third party banks, including Fifth Third Bank, Manufacturers and Traders Trust Company, and The Bank of New York Mellon, as eligible lender trustees, and is regulated by the U.S. Department of Education and the CFPB. CIT Small Business Lending Corporation, a Delaware corporation, is licensed by and subject to regulation and examination by the U.S. Small Business Administration (SBA). The portfolio of SBA guaranteed loans in CIT Bank are also subject to regulation and examination by the SBA.

Our insurance operations are primarily conducted through The Equipment Insurance Company, a Vermont corporation; CIT Insurance Company Limited, a Missouri corporation; CIT Insurance Agency, Inc., a Delaware corporation; and Equipment Protection Services (Europe) Limited, an Irish company. Each company is licensed to enter into insurance contracts and is subject to regulation and examination by insurance regulators. CIT Bank Limited, an English corporation, is licensed as a bank and broker-dealer and is subject to regulation and examination by the Financial Conduct Authority and the Prudential Regulation Authority of the United Kingdom. We have various other banking corporations in Brazil, France, Italy, and Sweden, each of which is subject to regulation and examination by banking and securities regulators.

The regulation and oversight of the financial services industry have undergone significant revision in the past several years. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was enacted in July 2010, made extensive changes to the regulatory structure and environment affecting banks, BHCs, non-bank financial companies, broker dealers, and investment advisory and management firms. The Dodd-Frank Act requires extensive rulemaking by various regulatory agencies, which is ongoing. Any changes resulting from the Dodd-Frank Act rulemaking process, as well as any other changes in the laws or regulations applicable to us more generally, may negatively impact the profitability of our business activities, require us to change certain of our business practices, materially affect our business model or affect retention of key personnel, require us to raise additional regulatory capital, increase the amount of liquid assets that we hold, otherwise affect our funding profile or expose us to additional costs (including increased compliance costs). Any such changes may also require us to invest significant management attention and resources to make any necessary changes and may adversely affect our ability to conduct our business as previously conducted or our results of operations or financial condition.

Written Agreement

On August 12, 2009, CIT entered into a Written Agreement with the FRBNY. The Written Agreement required regular reporting to the FRBNY, the submission of plans related to corporate governance, credit risk management, capital, liquidity and funds management, the Company s business and the review and revision, as appropriate, of the Company s consolidated allowances for loan and lease losses methodology. CIT was required to obtain prior written approval by the FRBNY for payment of dividends and distributions; incurrence of debt, other than in the ordinary course of business; and the purchase or redemption of stock. The Written Agreement also required CIT to notify the FRBNY prior to the appointment of new directors or senior executive officers; and placed restrictions on indemnification and severance payments. On May 30, 2013, the FRBNY terminated the Written Agreement. The termination of the Written Agreement did not have any significant impact on CIT s business or operations.

Banking Supervision and Regulation

Permissible Activities

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

and each of its U.S. depository institution subsidiaries maintain their status as well-capitalized and well-managed.

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

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

The Dodd-Frank Act places additional limits on the activities of banks and their affiliates by prohibiting them from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds). This statutory provision is commonly called the Volcker Rule . The statutory provision became effective in July 2012 and required banking entities subject to the Volcker Rule to bring their activities and investments into compliance with applicable requirements by July 2014. On December 10, 2013, the federal banking agencies, the SEC, and the CFTC adopted final rules to implement the Volcker Rule, and the FRB, by order, extended the compliance period to July 2015. The final rules are highly complex, but CIT does not currently anticipate that the Volcker Rule will have a material effect on its business and activities. CIT will incur additional costs to revise its policies and procedures, and will need to upgrade its operating and monitoring systems to ensure compliance with the Volcker Rule. We cannot yet determine the precise financial impact of the rule on CIT and its customers.

Capital Requirements

As a BHC, CIT is subject to consolidated regulatory capital requirements administered by the FRB. CIT Bank is subject to similar capital requirements administered by the FDIC. The current risk-based capital guidelines applicable to CIT are based upon the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee).

General Risk-Based Capital Requirements. CIT computes and reports its risk-based capital ratios in accordance with the general risk-based capital rules set by the U.S. banking agencies and based upon Basel I. As applicable to CIT, Tier 1 capital generally includes common shareholders equity, retained earnings, and minority interests in equity accounts of consolidated subsidiaries, less the effect of certain items in accumulated other comprehensive income, goodwill and intangible assets, one-half of the investment in unconsolidated subsidiaries and other adjustments. Under currently applicable guidelines, Tier 1 capital can also include qualifying non-cumulative perpetual preferred stock and a limited amount of trust preferred securities and qualifying cumulative perpetual preferred stock, none of which CIT currently has outstanding. Tier 2 capital consists of the allowance for credit losses up to 1.25 percent of risk-weighted assets less one-half of the investment in unconsolidated subsidiaries and other adjustments. In addition, Tier 2 capital includes perpetual preferred stock not qualifying as Tier 1 capital, qualifying mandatory convertible debt securities, and qualifying subordinated debt, none of which CIT currently has outstanding. The sum of Tier 1 and Tier 2 capital represents our qualifying total capital . Our Tier 1 capital must represent at least half of our qualifying total capital . Under the capital guidelines of the FRB, assets and certain off-balance sheet commitments and obligations are converted into risk-weighted assets against which regulatory capital is measured. Risk weighted assets are determined by dividing assets and certain off-balance sheet commitments and obligations into risk categories, each of which is assigned a risk weighting ranging from 0% (e.g., for U.S. Treasury Bonds) to 100%.

CIT, like other BHCs, currently is required to maintain Tier 1 capital and total capital equal to at least 4.0% and 8.0%, respectively, of its total risk-weighted assets (including various off-balance sheet items, such as letters of credit). CIT Bank, like other depository institutions, is required to maintain equivalent capital levels under capital adequacy guidelines. In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action discussed under *Prompt Corrective Action* below, its Tier 1 capital and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

CIT s Tier 1 capital and total capital ratios at December 31, 2013 were 16.7% and 17.4%, respectively. CIT Bank s Tier 1 capital and total capital ratios at December 31, 2013 were 16.8% and 18.1%, respectively. The calculation of regulatory capital ratios by CIT is subject to review and consultation with the FRB, or the FDIC in the case of CIT Bank, which may result in refinements to estimated amounts.

Leverage Requirements. BHCs and depository institutions are also required to comply with minimum Tier 1 Leverage ratio requirements. The Tier 1 Leverage ratio is the ratio of a banking organization s Tier 1 capital to its total adjusted quarterly average

assets (as defined for regulatory purposes). BHCs and FDIC-supervised banks that either have the highest supervisory rating or have implemented the appropriate federal regulatory authority s risk-adjusted measure for market risk are required to maintain a minimum Tier 1 Leverage ratio of 3.0%. All other BHCs and FDIC-supervised banks are required to maintain a minimum Tier 1 Leverage ratio of 4.0%, unless a different minimum is specified by an appropriate regulatory authority. In addition, for a depository institution to be considered well capitalized under the regulatory framework for prompt corrective action discussed under *Prompt Corrective Action* below, its Tier 1 Leverage ratio must be at least 5.0%.

At December 31, 2013, CIT s Tier 1 leverage ratio was 18.1% and CIT Bank s Tier 1 leverage ratio was 16.9%.

Basel III and the New Standardized Risk-based Approach. In December 2010, the Basel Committee released its final framework for strengthening capital and liquidity regulation (Basel III). In June 2012, the U.S. banking agencies issued three joint notices of proposed rulemaking (NPRs) that contained substantial revisions to the risk-based capital requirements applicable to BHCs and depository institutions, such as CIT and CIT Bank, compared to the current U.S. risk-based capital rules based on Basel I. The NPRs proposed changes to implement Basel III for U.S. banking organizations largely as proposed by the Basel Committee, and also included changes consistent with the Dodd-Frank Act. The first NPR, the Basel III NPR, proposed restrictions on the definition of regulatory capital, introduced a new common equity Tier 1 capital requirement, and proposed higher minimum regulatory capital requirements, including a requirement that institutions maintain a capital conservation buffer above the heightened minimum regulatory capital requirements to absorb losses during periods of economic stress. The Basel III NPR also limited the ability of institutions to pay dividends and other capital distributions and certain discretionary bonuses if regulatory capital levels declined into the capital conservation buffer. The second NPR, the Standardized Approach NPR, proposed revisions to the methodologies for calculating risk-weighted assets in the general risk-based capital rules, incorporating aspects of the Basel II standardized approach, and established alternative standards of creditworthiness in place of credit ratings, consistent with the Dodd-Frank Act. The third NPR, the Advanced Approaches NPR, included proposed changes to the current advanced approaches risk-based capital rules to incorporate the applicable provisions of Basel III and the enhancements to the Basel II framework published in July 2009 and subsequent consultative papers, and removed references to credit ratings.

In July 2013, the FRB and the FDIC issued a final rule (Basel III Final Rule) that adopted the Basel III NPR, Standardized Approach NPR, and Advanced Approaches NPR, with certain changes to the proposals, implementing revised risk-based capital and leverage requirements for banking organizations proposed under Basel III. The Company, as well as the Bank, will be subject to the Basel III Final Rule as of January 1, 2015.

Among other matters, the Basel III Final Rule: (i) introduces a new capital measure called Common Equity Tier 1 (CET1) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specifies that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain revised requirements; (iii) mandates that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expands the scope of the deductions from and adjustments to capital as compared to existing regulations. For most banking organizations, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock and the most common form of Tier 2 capital is subordinated notes which will be subject to the Basel III Final Rule specific requirements. The Company does not currently have either of these forms of capital outstanding.

The Basel III Final Rule also introduces a new capital conservation buffer , composed entirely of CET1, on top of these minimum risk-weighted asset ratios, which excludes the Tier 1 leverage ratio. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the capital conservation buffer will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The Basel III Final Rule provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, certain portions of deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1.

In addition, under the current general risk-based capital rules, the effects of certain components of accumulated other comprehensive income (AOCI) included in shareholders equity (for example, mark-to-market of securities held in the available-for-sale (AFS) portfolio) under U.S. GAAP are reversed for the purpose of determining regulatory capital ratios. Pursuant to the Basel III Final Rule, the effects of these AOCI items are not excluded; however, non-advanced approaches banking organizations, including the Company and CIT Bank, may make a one-time permanent election to continue to exclude the AOCI items currently excluded under Basel I. This election must be made concurrently with the first filing of certain of the Company s and CIT Bank s periodic regulatory reports in the beginning of 2015. The Company and CIT Bank are considering whether to make such election. The Basel III Final Rule also precludes certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies Tier 1 capital. The Company does not have any hybrid securities, such as trust preferred securities, outstanding at December 31, 2013.

Implementation of the deductions and other adjustments to CET1 will begin on January 1, 2015 and will be phased-in over a 4-year period (beginning at 40% on January 1, 2015 and an additional 20% per year thereafter). The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019.

Per the Basel III Final Rule, CIT will be required to maintain risk-based capital ratios at January 1, 2019 as follows:

Minimum Capital Requirements January 1, 2019	Tier 1 Common Equity	Tier 1 Capital	Total Capital

	Minimum Capital Requirements		January 1, 2019
Stated minimum ratio	4.5%	6.0%	8.0%
Capital conservation buffer	2.5%	2.5%	2.5%
Effective minimum ratio	7.0%	8.5%	10.5%

The Basel III Final Rule prescribes a new approach for risk weightings for BHCs and banks that follow the Standardized approach, which currently applies to CIT. This approach expands the risk-weighting categories from the current four Basel I-derived categories (0%, 20%, 50% and 100%) to a larger and more risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 600% for certain equity exposures, and resulting in higher risk weights for a variety of asset classes. Overall, CIT expects a modest increase in risk-weighted assets, and a modest decrease in our risk-based capital ratios, because of the similarity of the Standardized Approach risk-weighting methodologies to the current Basel I risk-weighting methodology with respect to the Company s and CIT Bank s assets and off-balance sheet items.

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

At December 31, 2013, the Company s and CIT Bank s capital ratios and capital composition exceed the post-transition minimum capital requirements at January 2019. CIT s capital stock is substantially all Tier 1 Common equity and generally does not include non-qualifying capital instruments subject to transitional deductions. Both CIT and CIT Bank are subject to a minimum Tier 1 Leverage ratio of 4%. We continue to believe that, as of December 31, 2013, the Company and CIT Bank would meet all capital requirements under the Basel III Final Rule, including the capital conservation buffer, on a fully phased-in basis as if such requirements were currently effective. As non-advanced approaches banking organizations, the Company and CIT Bank will not be subject to the Basel III Final Rule s countercyclical buffer or the supplementary leverage ratio.

Stress Test and Capital Plan Requirements

In October 2012, the FRB issued final regulations detailing stress test requirements for BHCs, savings and loan companies and state member banks with total consolidated assets greater than $10 billion.

With assets at December 31, 2013 of $47.1 billion, CIT is required to conduct annual stress tests using scenarios provided by the FRB, beginning with the 2014 stress test cycle. A stress test is defined as processes to assess the potential impact of adverse scenarios on the consolidated earnings, losses, and capital of a company over a planning horizon, taking into account the company s current condition, risks, exposures, strategies, and activities. CIT will conduct annual stress tests based on its financial results at September 30 each year for a 9 quarter planning horizon and using the FRB or supervisory scenarios issued prior to November 15 of each year. CIT must submit its annual stress test results to the FRB by March 31 of each year. For the 2014 stress test cycle, the planning horizon covers the fourth quarter of 2013 and all of 2014 and 2015, and must be submitted by March 31, 2014. Beginning with the 2015 stress test cycle, CIT will be required to publicly disclose the results of the severely adverse scenario in a forum easily accessible to the public, such as CIT s website, between June 15 and June 30 following the submission to the FRB.

Similarly, the FDIC published regulations requiring annual stress tests for FDIC-insured state nonmember banks and FDIC-insured state-chartered savings organizations with total consolidated assets averaging $10 billion or more for four consecutive quarters. CIT Bank is an FDIC-insured state nonmember bank with total assets of $16.1 billion as of December 31, 2013. CIT Bank exceeds $10 billion in assets and conducted its required annual stress tests using scenarios provided by the FDIC in the fall of 2013. Annual stress test results must be submitted before March 31 to the FDIC and the FRB starting with the 2014 stress test cycle, with public disclosure of the severely adverse scenario, starting with the 2015 stress test cycle, between June 15 and June 30 following the submission of stress test results to the FDIC and FRB.

Should our total consolidated assets average $50 billion or more for four consecutive quarters, CIT would be required to submit a capital plan annually to the FRB under the capital plan rule finalized in November 2011 as well as updated instructions and guidance published annually. While CIT is not currently subject to the capital plan rule, the FRB has the authority to require any BHC to submit annual capital plans based on the institution s size, level of complexity, risk profile, scope of operations, or financial condition.

Furthermore, if our total consolidated assets average $50 billion or more for four consecutive quarters, CIT would also be subject to stress test requirements for covered companies (subpart G of the FRB s Regulation YY). Annually, CIT would be required to complete and submit a supervisory stress test with the FRB s economic scenarios, as part of its capital plan, by January 5. Summary stress test results for the severely adverse scenario

would be publicly disclosed between March 15 and March 31. Furthermore, CIT would also be required to conduct annual and mid-cycle Company-run stress tests with company-developed economic scenarios for submission to the FRB by July 5. Public disclosure of the summary stress test results for the bank holding company s severely adverse scenario would be made between September 15 and September 30.

Although CIT is currently not required to take part in the Comprehensive Capital Analysis and Review (CCAR), we produce a capital plan that we believe is aligned with the supervisory expectations for large BHCs, which includes and considers stress test results for supervisory scenarios. Our annual capital plan is subject to review by the FRBNY.

Liquidity Requirements

Historically, regulation and monitoring of bank and BHC liquidity has been addressed as a supervisory matter, without required formulaic measures. The Basel III final framework requires banks and BHCs to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward will be required by regulation. One test, referred to as the liquidity coverage ratio (LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. The Basel III liquidity framework contemplates that the LCR will begin a phased implementation process starting on January 1, 2015 that is expected to be completed by January 1, 2019. The Basel III liquidity framework contemplates that the NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018.

On October 24, 2013, the FRB issued a proposed rule to create a standardized minimum liquidity requirement for large and internationally active banking organizations, similar to the LCR in Basel III. These institutions would be required to hold minimum amounts of high-quality, liquid assets, such as central bank reserves and government and corporate debt that can be converted easily and quickly into cash. Each institution would be required to hold these high quality, liquid assets in an amount equal to or greater than its projected cash outflows minus its projected cash inflows during a short-term stress period. The ratio of the firms liquid assets to its projected net cash outflow is its LCR.

The LCR would apply to all internationally active banking organizations generally those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure and to systemically important, non-bank financial institutions. The proposed rule also would apply a less stringent, modified LCR to bank holding companies that have more than $50 billion in total assets.

The proposed rule will implement the LCR proposed in the Basel III final framework and will establish an enhanced prudential liquidity standard consistent with Section 165 of the Dodd-Frank Act. Comments on the notice of proposed rulemaking were due by January 31, 2014. Since the Company is currently below $50 billion in total assets and $10 billion in on-balance sheet foreign exposure, the proposed rule would not apply to us at the present time if implemented in its current form. The U.S. bank regulatory agencies have not issued final rules implementing the NSFR test called for by the Basel III final framework.

Prompt Corrective Action

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, establishes five capital categories for FDIC-insured banks: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution is deemed to be well capitalized, the highest category, if it has a total capital ratio of 10% or greater, a Tier 1 capital ratio of 6% or greater and a Tier 1 leverage ratio of 5% or greater and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure. CIT Bank s capital ratios were all in excess of minimum guidelines for well capitalized at December 31, 2013 and 2012. Neither CIT nor CIT Bank is subject to any order or written agreement regarding any capital requirements.

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

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

Heightened Prudential Requirements for Large Bank Holding Companies

The Dodd-Frank Act imposes heightened prudential requirements on, among others, BHCs with at least $50 billion in total consolidated assets, based on the average of total consolidated assets for the last four quarters, and requires the FRB to establish prudential standards for those large BHCs that are more stringent than those applicable to other BHCs. In December 2011, the FRB issued for public comment a notice of proposed rulemaking establishing enhanced prudential standards responsive to these provisions for risk-based capital requirements and leverage limits, liquidity requirements, risk-management requirements, stress testing, concentration limits, and a debt-to-equity limit for certain companies that the Financial Stability Oversight Council (FSOC) has determined pose a grave threat to financial stability. To date, only the regulations with regard to stress tests as discussed in *Stress Test and Capital Plan Requirements* above have been finalized. The FRB has discretionary authority to establish additional prudential standards, on its own or at the FSOC s recommendation, regarding contingent capital, enhanced public disclosures, short-term debt limits, and otherwise as it deems appropriate.

Most of the proposed rules will not apply to CIT for so long as its total consolidated assets remain below $50 billion. However, if CIT s total consolidated assets are $50 billion or more, these rules will apply. Two aspects of the proposed rules requirements for annual stress testing of capital under one base and two stress scenarios and certain corporate governance provisions requiring, among other things, that each BHC establish a risk committee of its board of directors with a risk management expert as one of its members apply to BHCs with total consolidated assets of $10 billion or more, including CIT.

Acquisitions

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

Dividends

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

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

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

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

We anticipate that our capital ratios reflected in the stress test calculations required of us and the capital plan that we prepare as described under *Stress Test and Capital Requirements* , above, will be an important factor considered by the FRB in evaluating whether our proposed return of capital may be an unsafe or unsound practice. Additionally, should our total consolidated assets equal or exceed $50 billion, we would likely also be limited to paying dividends and repurchasing stock only in accordance with our annual capital plan submitted to the FRB under the capital plan rule. FRB guidance in the 2013 capital plan review instructions provide that capital plans contemplating dividend payout ratios exceeding 30% of projected after-tax net income will receive particularly close scrutiny.

Source of Strength Doctrine and Support for Subsidiary Banks

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

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

Enforcement Powers of Federal Banking Agencies

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

Resolution Planning

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

Orderly Liquidation Authority

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

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

FDIC Deposit Insurance

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

The current assessment system applies different methods to small institutions with assets of less than $10 billion, which are classified as small institutions, and large institutions with assets of greater than $10 billion for more than four consecutive quarters. CIT Bank is an FDIC-insured state nonmember bank with total assets of $16.1 billion as of December 31, 2013, and is considered a large institution.

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

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

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

Transactions with Affiliates

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

All transactions subject to Sections 23A and 23B between CIT Bank and its affiliates are done on an arms-length basis. In 2013, the Bank purchased $272 million of loans from BHC affiliates, subject to Section 23A and received $67 million of loans transferred in the form of capital infusions from the BHC. During 2012, approximately $280 million in loans and cash was transferred to CIT Bank and its subsidiaries from CIT as equity contributions in support of capital agreements related to student loans purchased from affiliates under a 23A and 23B exemption granted by the FRB. Furthermore, to ensure ongoing compliance with Sections 23A and 23B, CIT Bank maintains sufficient collateral in the form of cash deposits and pledged loans to cover any extensions of credit to affiliates.

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

Safety and Soundness Standards

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

Insolvency of an Insured Depository Institution

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

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

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

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

In addition, under federal law, the claims of holders of deposit liabilities, including the claims of the FDIC as the guarantor of insured depositors, and certain claims for administrative expenses against an insured depository institution would be afforded priority over other general unsecured claims against such an institution, including claims of debt holders of the

institution, in the liquidation or other resolution of such an institution by any receiver. As a result, whether or not the FDIC ever seeks to repudiate any debt obligations of CIT Bank, the debt holders would be treated differently from, and could receive, if anything, substantially less than CIT Bank s depositors.

Consumer Financial Protection Bureau Supervision

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

Community Reinvestment Act (CRA)

The CRA requires depository institutions like CIT Bank to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low-and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings. Furthermore, banking regulators take into account CRA ratings when considering approval of a proposed transaction. CIT Bank received a rating of Satisfactory on its most recent CRA examination by the FDIC.

Incentive Compensation

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

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

Anti-Money Laundering (AML) and Economic Sanctions

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

Anti-corruption

The Company is subject to the Foreign Corrupt Practices Act (FCPA), which prohibits offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a non-U.S. government official in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. The Company is also subject to applicable anti-corruption laws in the jurisdictions in which it operates, such as the U.K. Bribery Act, which became effective on July 1, 2011 and which generally prohibits commercial bribery, the receipt of a bribe, and the failure to prevent bribery by an associated person, in addition to prohibiting improper payments to foreign government officials. The Company has implemented policies, procedures, and internal controls that are designed to comply with such laws, rules, and regulations.

Protection of Customer and Client Information

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

Other Regulation

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

- regulate credit granting activities, including establishing licensing requirements, if any, in various jurisdictions;
- establish maximum interest rates, finance charges and other charges;
- regulate customers insurance coverages;
- require disclosures to customers;
- govern secured transactions;
- set collection, foreclosure, repossession and claims handling procedures and other trade practices;

- prohibit discrimination in the extension of credit and administration of loans; and

- regulate the use and reporting of information related to a borrower s credit experience and other data collection.

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

WHERE YOU CAN FIND MORE INFORMATION

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

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

GLOSSARY OF TERMS

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

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

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

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

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

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

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

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

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

Financing and Leasing Assets include finance receivables, operating lease equipment, and assets held for sale.

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

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

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

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

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

Net Finance Revenue (NFR) is a non-GAAP measurement and reflects Net Interest Revenue (defined below) plus rental income on operating leases less depreciation on operating lease equipment, which is a direct cost of equipment ownership. When divided by AEA, the product is defined as Net Finance Margin. These are key measures in the evaluation of the financial performance of our business.

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

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

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

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

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

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

Other Income includes gains on equipment sales, factoring commissions, and fee revenue from activities such as loan servicing and loan syndications. Also included are gains on loan sales and investment sales and, as a result of FSA, recoveries on pre-FSA loan charge-offs. Other income combined with rental income on operating leases is defined as Non-interest income.

Regulatory Credit Classifications used by CIT are as follows:

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

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

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

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

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

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

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

Risk Weighted Assets (RWA) is the denominator to which Total Capital and Tier 1 Capital is compared to derive the respective risk based regulatory ratios. RWA is comprised of both on-balance sheet assets and certain off-balance sheet items (for

example loan commitments, purchase commitments or derivative contracts), all of which are adjusted by certain risk-weightings as defined by the regulators, which are based upon, among other things, the relative credit risk of the counterparty.

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

Tangible Metrics, including tangible capital, exclude goodwill and intangible assets. We use tangible metrics in measuring book value.

Tier 1 Capital and Tier 2 Capital are regulatory capital as defined in the capital adequacy guidelines issued by the Federal Reserve. Tier 1 Capital is total stockholders equity reduced by goodwill and intangibles and adjusted by elements of other comprehensive income and other items. Tier 2 Capital consists of, among other things, other preferred stock that does not qualify as Tier 1, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt, and allowance for loan losses up to 1.25% of risk weighted assets.

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

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

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

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

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

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

Item 1A. Risk Factors

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

Risks Related to Our Strategy and Business Plan

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

A number of strategic issues affect our business, including how we allocate our capital and liquidity, our business strategy, and the quality and efficiency of operations. Among the capital and liquidity issues, we must address how we will use our excess capital, and our funding model, including the amount, availability, and cost of secured and unsecured debt in the capital markets and bank deposits in a bank-centric model. See *Risks Related to Capital and Liquidity*. Among the business strategy issues, we must continue to evaluate which platforms to operate within CIT Bank or at the holding company, the scope of our international operations, and whether to acquire any new business platforms, or to expand, contract, or sell any existing platforms, some of which may be material. Among operational issues, we must continuously originate new business, service our existing portfolio, and review and/or upgrade our policies, procedures, systems, and internal controls.

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

effect on our business, results of operations and financial condition.

Risks Related to Capital and Liquidity

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

New and evolving capital and liquidity standards will have a significant effect on banks and BHCs. In July 2013, the FRB and the FDIC approved the Basel III Final Rule, which requires BHCs to maintain more and higher quality capital than in the past. In October 2013, the FRB issued a proposed rule to create a standardized minimum liquidity requirement for large and internationally active banking organizations, referred to as the liquidity coverage ratio , or LCR . The U.S. bank regulatory agencies are also expected to issue a rule implementing the net stable funding ratio, or NSFR , called for by the Basel III Final Framework. If we incur future losses that reduce our capital levels or affect our liquidity, we may fail to maintain our regulatory capital or our liquidity above regulatory minimums and at economically satisfactory levels. Failure to maintain the appropriate capital levels or adequate liquidity would have a material adverse effect on the Company s financial condition and results of operations, and subject the Company to a variety of formal or informal enforcement actions, which may include restrictions on our business activities, including limiting lending and leasing activities, limiting the expansion of our business, either organically or through acquisitions, requiring the raising of additional capital, which may be dilutive to shareholders, or requiring prior regulatory approval before taking certain actions, such as payment of dividends or otherwise returning capital to shareholders. The new liquidity standards could also require CIT to hold higher levels of short-term investments, thereby reducing our ability to reduce our excess liquidity and invest in longer-term or less liquid assets. In addition to the requirement to be well-capitalized, the Company and CIT Bank are subject to regulatory guidelines that involve qualitative judgments by regulators about the entities status as well-managed, about the safety and soundness of the entities operations, including their risk management, and about the entities compliance with obligations under the Community Reinvestment Act of 1977, and failure to meet any of those standards may have a material adverse effect on our business.

If we fail to maintain adequate liquidity or to generate sufficient cash flow to satisfy our obligations as they come due, it could materially adversely affect our future business operations.

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

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

CIT Bank currently does not have a branch network and relies on its online bank, brokered deposits, and certain deposit sweep accounts to raise deposits. Continued expansion of CIT Bank s retail online banking platform to diversify the types of deposits that it accepts may require significant time, effort, and expense to implement. CIT Bank anticipates launching a retail branch in Salt Lake City. In addition, an acquisition of a retail branch network would be subject to regulatory approval, which may not be obtained. We are likely to face significant competition for deposits from larger BHCs who are similarly seeking larger and more stable pools of funding. If CIT Bank fails to expand and diversify its deposit-taking capability, it could have an adverse effect on our business, results of operations, and financial condition.

Risks Related to Regulatory Obligations

We could be adversely affected by banking or other regulations, including new regulations or changes in existing regulations or the application thereof.

The financial services industry, in general, is heavily regulated. We are subject to the comprehensive, consolidated supervision of the FRB, including risk-based and leverage capital requirements and information reporting requirements. In addition, CIT Bank is subject to supervision by the FDIC and UDFI, including risk-based capital requirements and information reporting requirements. This regulatory oversight is established to protect depositors, federal deposit insurance funds and the banking system as a whole, and is not intended to protect debt and equity security holders.

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

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

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

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

In addition, our equipment leasing operations outside of the U.S. are subject to the jurisdiction of authorities in the countries in which we do business. Failure to comply with, or future changes to, any of the foregoing laws, rules, or regulations could restrict the use or reduce the economic value of our leased equipment, including loss of revenue, or cause us to incur significant expenditures to comply, thereby increasing operating expenses. Certain changes to laws, rules, and regulations, or actions by authorities under existing laws, rules, or regulations, could result in the obsolescence of various assets or impose compliance costs that are so significant as to render such assets economically obsolete.

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

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

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

BHCs with assets in excess of $50 billion must develop an annual capital plan detailing their plans for the payment of dividends on their common or preferred stock or the repurchase of common stock. Although our assets currently are less than $50 billion, we would become subject to the capital plan requirement if our assets exceed $50 billion in the future. Furthermore, we still consult with the FRBNY prior to declaring dividends on our common stock or implementing a plan to repurchase our common stock. We cannot determine whether the FRBNY will object to future capital returns consistent with our past practice.

Risks Related to the Operation of Our Businesses

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

As part of its ongoing business, CIT from time to time enters into new business initiatives. In addition, CIT has targeted certain expense reductions to be phased in during 2013 and 2014. The new business initiatives may not be successful in increasing revenue, whether due to significant levels of competition, lack of demand for services, lack of name recognition or a record of prior performance, or otherwise, or may require higher expenditures than anticipated to generate new business volume. The expense initiatives may not reduce expenses as much as anticipated, whether due to delays in implementation, higher than expected or unanticipated costs to implement them, increased costs for new regulatory obligations, or for other reasons. If CIT is unable to achieve the anticipated revenue growth from its new business

initiatives or the projected expense reductions from efficiency improvements, its results of operations and profitability may be adversely affected.

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

Most of our business is diversified by customer, industry, and geography. However, although our Commercial Aerospace business is diversified by customer and geography, it is concentrated in one industry and represents over 24% of our financing and leasing assets. If there is a significant downturn in commercial air travel, it could have a material adverse effect on our business and results of operations.

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

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

Our allowance for loan losses may prove inadequate.

The quality of our financing and leasing assets depends on the creditworthiness of our customers and their ability to fulfill their obligations to us. We maintain a consolidated allowance for loan losses on our financing and leasing assets to provide for loan defaults and non-performance. The amount of our allowance reflects management s judgment of losses inherent in the portfolio. Our credit losses were significantly more severe from 2007 to 2009 than in prior economic downturns, due to a significant decline in real estate values, an increase in the proportion of cash flow loans versus asset based loans in our corporate finance segment, the limited ability of borrowers to restructure their liabilities or their business, and reduced values of the collateral underlying the loans.

The economic environment is dynamic, and our portfolio credit quality could decline in the future. Our allowance for loan losses may not keep pace with changes in the credit-worthiness of our customers or in collateral values. If the credit quality of our customer base declines, if the risk profile of a market, industry, or group of customers changes significantly, or if the markets for accounts receivable, equipment, real estate, or other collateral deteriorates significantly, our allowance for loan losses may prove inadequate, which could have a material adverse effect on our business, results of operations, and financial condition.

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

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

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

We may not be able to achieve the expected benefits from acquiring a business or assets or receive adequate consideration for disposing of a business or assets.

As part of our strategy and business plan, we may consider a number of measures designed to manage our business, the products and services we offer, and our asset levels, credit exposures, or liquidity position, including potential business or asset acquisitions or sales. We may fail to complete any of these transactions, or if we complete any transactions, we may fail to realize any benefits from the transactions.

If CIT engages in business acquisitions, it may be necessary to pay a premium over book and market values to complete the transaction, which may result in some dilution of our tangible book value and net income per common share. If CIT uses substantial cash or other liquid assets or incurs substantial debt to acquire a business or assets, we could become more susceptible to economic downturns and competitive pressures. Inherent uncertainties exist when integrating the operations of an acquired entity. CIT may not be able to fully achieve its strategic objectives and planned operating efficiencies in an acquisition. CIT may also be exposed to other risks inherent in an acquisition, including potential exposure to unknown or contingent liabilities, exposure to potential asset quality issues, potential disruption of our existing business and diversion of management s time and attention, possible loss of key employees or customers of the acquired business, potential risk that certain items were not accounted for properly by the seller in accordance with financial accounting and reporting standards. Failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits

from an acquisition could have a material adverse effect on our business, financial condition, and results of operations.

CIT must generally receive regulatory approval before it can acquire a bank or BHC or for any acquisition in which the assets acquired exceeds $10 billion. We cannot be certain when or if, or on what terms and conditions, any required regulatory approval may be granted. We may be required to sell assets or business units as a condition to receiving regulatory approval.

As a result of economic cycles and other factors, the value of certain asset classes may fluctuate and decline below their historic cost. If CIT is holding such businesses or asset classes, we may not recover our carrying value if we sell such businesses or assets. In addition, potential purchasers may be unwilling to pay an amount equal to the face value of a loan or lease if the purchaser is concerned about the quality of our credit underwriting. We may not receive adequate consideration for our dispositions. These transactions, if completed, may reduce the size of our business and we may not be able to replace the lending and leasing activity associated with these businesses. As a result, our future disposition of assets could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

Further, certain equipment residual values, including commercial aerospace residuals, are dependent on the manufacturers or vendors warranties, reputation, and other factors, including market liquidity. In addition, we may not realize the full market value of equipment if we are required to sell it to meet liquidity needs or for other reasons outside of the ordinary course of business. Consequently, there can be no assurance that we will realize our estimated residual values for equipment.

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

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

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

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

We and our subsidiaries are party to various financing arrangements, commercial contracts and other arrangements, such as securitization transactions, derivatives transactions, funding facilities, and agreements for the purchase or sale of assets, that give, or in some cases may give, the counterparty the ability to exercise rights and remedies upon the occurrence of certain events. Such events may include a material adverse effect or material adverse change (or similar event), a breach of representations or warranties, a failure to disclose material information, a breach of covenants, certain insolvency events, a default under certain specified other obligations, or a failure to comply with certain financial covenants. The counterparty could have the ability, depending on the arrangement, to, among other things, require early repayment of amounts owed by us or our subsidiaries and in

some cases payment of penalty amounts, or require the repurchase of assets previously sold to the counterparty. Additionally, a default under financing arrangements or derivatives transactions that exceed a certain size threshold in the aggregate may also cause a cross-default under instruments governing our other financing arrangements or derivatives transactions. If the ability of any counterparty to exercise such rights and remedies is triggered and we are unsuccessful in avoiding or minimizing the adverse consequences discussed above, such consequences could have a material adverse effect on our business, results of operations, and financial condition.

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

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

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

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

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

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

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

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

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

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

Given the high percentage of our financing and leasing assets represented directly or indirectly by loans and leases, and the importance of lending and leasing to our overall business, weak economic conditions are likely to have a negative impact on our

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

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

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

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

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

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

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

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

In the course of our business, we may foreclose on and take title to real estate that contains or was used in the manufacture or processing of hazardous materials, or that is subject to other hazardous risks. In addition, we may lease equipment to our customers that is used to mine, develop, process, or transport hazardous materials. As a result, we could be subject to environmental liabilities or claims for negligence, property damage, or personal injury with respect to these properties or equipment. We may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination, accidents or other hazardous risks, or may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site or equipment involved in a hazardous incident, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination, property damage, personal injury or other hazardous risks emanating from the property or related to the equipment. If we become subject to significant environmental liabilities or claims for negligence, property damage, or personal injury, our financial condition and results of operations could be adversely affected.

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

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

or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or cause financial loss, potential liability to clients, inability to secure insurance, reputational damage, or regulatory intervention, which could have a material adverse effect on our business.

We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, electrical or telecommunications outages, natural or man-made disasters, such as fires, earthquakes, hurricanes, floods, or tornados, disease pandemics, or events arising from local or regional politics, including terrorist acts or international hostilities. Such disruptions may give rise to losses in service to clients and loss or liability to us. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems we and others use could be vulnerable to unforeseen problems. These problems may arise in both our internally developed systems and the systems of third-party hardware, software, and service providers. In addition, our computer systems and network infrastructure present security risks, and could be susceptible to hacking, computer viruses, or identity theft. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation or losses not covered by insurance. The adverse impact of disasters, terrorist activities, or international hostilities also could be increased to the extent that there is a lack of preparedness on the part of national or regional emergency responders or on the part of other organizations and businesses that we deal with, particularly those that we depend upon but have no control over.

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

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

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

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

Recently, there have been several well-publicized series of apparently related denial of service attacks on large financial services companies. In a denial of service attack, hackers flood commercial websites with extraordinarily high volumes of traffic, with the goal of disrupting the ability of commercial enterprises to process transactions and possibly making their websites unavailable to customers for extended periods of time. We recently experienced denial of service attacks that targeted a third party service provider that provides software and customer services with respect to our online deposit taking activities, which resulted in temporary disruptions in customers ability to perform online banking transactions, although no customer data was lost or compromised. Even if not directed at CIT specifically, attacks on other entities with whom we do business or on whom we otherwise rely or attacks on financial or other institutions important to the overall functioning of the financial system could adversely affect, directly or indirectly, aspects of our business.

Since January 1, 2011, we have not experienced any material information security breaches involving either proprietary or customer information. However, if we experience cyber attacks or other information security breaches in the future, either the company or its customers may suffer material losses. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the prominent size and scale of CIT and its role in the financial services industry, our plans to continue to implement our online banking channel strategies and develop additional remote connectivity solutions to serve our customers when and how they want to be served, our expanded geographic footprint and international presence, the outsourcing of some of our business operations, and the continued uncertain global economic environment. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

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

Item 1B. Unresolved Staff Comments

There are no unresolved SEC staff comments.

Item 2. Properties

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

Item 3: Legal Proceedings

CIT is currently involved, and from time to time in the future may be involved, in a number of judicial, regulatory, and arbitration proceedings relating to matters that arise in connection with the conduct of its business (collectively, Litigation), certain of which Litigation matters are described in *Note 20 Contingencies* of *Item 8. Financial Statements and Supplementary Data*. In view of the inherent difficulty of predicting the outcome of Litigation matters, particularly when such matters are in their early stages or where the claimants seek indeterminate damages, CIT cannot state with confidence what the eventual outcome of the pending Litigation will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines, or penalties related to each pending matter may be, if any. In accordance with applicable accounting guidance, CIT establishes reserves for Litigation when those matters present loss contingencies as to which it is both probable that a loss will occur and the amount of such loss can be reasonably estimated. Based on currently available information, CIT believes that the results of Litigation that is currently pending, taken together, will not have a material adverse effect on the Company s financial condition, but may be material to the Company s operating results or cash flows for any particular period, depending in part on its operating results for that period. The actual results of resolving such matters may be substantially higher than the amounts reserved.

For more information about pending legal proceedings, including an estimate of certain reasonably possible losses in excess of reserved amounts, see *Note 20 Contingencies* of *Item 8. Financial Statements and Supplementary Data*.

Item 4. Mine Safety Disclosures

Not applicable.

PART TWO

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

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

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

	2013		2012	
	High	**Low**	**High**	**Low**
Common Stock				
First Quarter	$44.72	$39.04	$43.19	$34.84
Second Quarter	$47.56	$40.88	$41.60	$32.57
Third Quarter	$51.33	$46.84	$41.38	$34.20

	2013		2012	
Fourth Quarter	$52.13	$47.21	$40.81	$36.12

Holders of Common Stock As of February 10, 2014, there were 131,238 beneficial holders of common stock.

Dividends We declared and paid a $0.10 cash dividend on our common stock during the 2013 fourth quarter. On January 21, 2014, the Board of Directors declared a quarterly cash dividend of $0.10 per share payable on February 28, 2014. We expect quarterly cash dividends will continue to be paid in the future. There were no other dividends paid to shareholders during 2013 and 2012.

Shareholder Return The following graph shows the annual cumulative total shareholder return for common stock during the period from December 10, 2009 to December 31, 2013. Five year historical data is not presented since we emerged from bankruptcy on December 10, 2009 and the performance of CIT s common stock since December 10, 2009 is not comparable to the pre-bankruptcy performance of CIT s common stock. The chart also shows the cumulative returns of the S&P 500 Index and S&P Banks Index for the same period. The comparison assumes $100 was invested on December 10, 2009 (the date our new common stock began trading on the NYSE). Each of the indices shown assumes that all dividends paid were reinvested.

CIT STOCK PERFORMANCE DATA

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

	Number of Securities	Weighted-Average Exercise Price	Number of Securities Remaining Available

	to be Issued Upon Exercise of Outstanding Options	of Outstanding Options	for Future Issuance Under Equity Compensation Plans
Equity compensation plan approved by the Court	59,095	$ 31.23	6,157,903*

** Excludes the number of securities to be issued upon exercise of outstanding options and 2,234,529 shares underlying outstanding awards granted to employees and/or directors that are unvested and/or unsettled.*

During 2013, we had no equity compensation plans that were not approved by the Court or by shareholders. For further information on our equity compensation plans, including the weighted average exercise price, see *Item 8. Financial Statements and Supplementary Data, Note 18 Retirement, Other Postretirement and Other Benefit Plans*.

Issuer Purchases of Equity Securities On May 30, 2013, our Board of Directors approved the repurchase of up to $200 million of the Company s common stock through December 31, 2013. Management determined the timing and amount of shares repurchased under the share repurchase authorizations based on market conditions and other considerations. The repurchases were effected via open market purchases and through plans designed to comply with Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended. The repurchased common stock is held as treasury shares and may be used for the issuance of shares under CIT s employee stock plans.

The following table provides information related to purchases by the Company of its common shares during the quarter ended December 31, 2013:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of the Publicly Announced Program	Total Dollar Amount Purchased Under the Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
				(dollars in millions)	(dollars in millions)
September 30, 2013			1,085,517	$ 51.4	$148.6
Fourth Quarter Purchases					
October 1 31, 2013	1,028,386	$48.61	1,028,386	$ 50.0	
November 1 30, 2013	1,155,000	$47.85	1,155,000	55.3	
December 1 31, 2013	738,038	$49.77	738,038	36.7	
	2,921,424	$48.60	2,921,424	$142.0	
December 31, 2013			4,006,941	$193.4(1)	$

(1) *Shares repurchases were subject to a $200 million total, that expired on December 31, 2013.*

On January 21, 2014, the Board of Directors approved the repurchase of up to $300 million of common stock through December 31, 2014. In addition, the Board also approved the repurchase of an additional $7 million of common stock, which was the amount unused from our 2013 share repurchase authorization.

Unregistered Sales of Equity Securities There were no sales of common stock during 2013. However, there were issuances of common stock under equity compensation plans and an employee stock purchase plan, both of which are subject to registration statements.

Item 6. Selected Financial Data

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

Upon emergence from bankruptcy on December 10, 2009, CIT adopted fresh start accounting effective December 31, 2009, which resulted in data subsequent to adoption not being comparable to data in periods prior to emergence. Data for the year ended December 2009 represent amounts for Predecessor CIT.

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

Select Data (dollars in millions)

	At or for the Years Ended December 31,					
	CIT					**Predecessor CIT**
	2013	**2012**	**2011**	**2010**	**2009**	**2009**
Select Statement of Operations Data						
Net interest revenue	$ 244.8	$ (1,328.3)	$ (565.7)	$ 639.3	$	$ (308.1)
Provision for credit losses	(64.9)	(51.6)	(269.7)	(820.3)		(2,660.8)
Total non-interest income	2,152.4	2,437.7	2,620.3	2,653.3		1,560.2
Total other expenses	(1,558.2)	(1,512.6)	(1,606.5)	(1,700.9)		(2,795.7)
Reorganization items and fresh start adjustments						4,240.2
Net income (loss)	675.7	(592.3)	14.8	521.3		(3.8)
Per Common Share Data						
Diluted income (loss) per common share	$ 3.35	$ (2.95)	$ 0.07	$ 2.60		$ (0.01)
Book value per common share	$ 44.78	$ 41.49	$ 44.27	$ 44.54	$ 41.99	$
Tangible book value per common share	$ 42.98	$ 39.61	$ 42.23	$ 42.17	$ 39.06	$
Dividends declared per common share	$ 0.10					$ 0.02
Dividend payout ratio	3.0%					N/M
Performance Ratios						
Return on average common stockholders equity	7.8%	(7.0)%	0.2%	6.0%		N/M
Net finance revenue as a percentage of average earning assets	4.28%	(0.24)%	1.53%	3.95%		0.75%
Return on average total assets	1.49%	(1.34)%	0.03%	0.93%		N/M
	18.8%	18.9%	19.6%	17.3%	13.9%	

	At or for the Years Ended December 31,					
Total ending equity to total ending assets						
Balance Sheet Data						
Loans including receivables pledged	$18,629.2	$20,847.6	$19,905.9	$24,648.4	$35,185.1	$
Allowance for loan losses	(356.1)	(379.3)	(407.8)	(416.2)		
Operating lease equipment, net	13,035.4	12,411.7	12,006.4	11,155.0	10,927.5	
Goodwill and intangible assets, net	354.9	377.8	409.5	474.7	586.6	
Total cash and short-term investments	7,600.2	7,571.6	8,374.0	11,205.4	9,826.2	
Total assets	47,139.0	44,012.0	45,263.4	51,453.4	60,561.5	
Deposits	12,526.5	9,684.5	6,193.7	4,536.2	5,177.7	
Total long-term borrowings	21,750.0	21,961.8	26,307.7	34,049.3	43,333.1	
Total common stockholders equity	8,838.8	8,334.8	8,883.6	8,929.1	8,400.0	
Credit Quality						
Non-accrual loans as a percentage of finance receivables	1.29%	1.59%	3.53%	6.57%	4.47%	6.86%
Net charge-offs as a percentage of average finance receivables	0.37%	0.37%	1.16%	1.53%		4.04%
Allowance for loan losses as a percentage of finance receivables	1.91%	1.82%	2.05%	1.69%		4.33%
Financial Ratios						
Tier 1 Capital Ratio	16.7%	16.2%	18.8%	19.0%	14.2%	
Total Capital Ratio	17.4%	17.0%	19.7%	19.9%	14.2%	

N/M Not meaningful

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

	December 31, 2013			December 31, 2012			December	
	Average Balance	Interest	Average Rate (%)	Average Balance	Interest	Average Rate (%)	Average Balance	Inter
Interest bearing deposits	$ 5,108.8	$ 16.6	0.32%	$ 6,075.7	$ 21.8	0.36%	$ 6,395.4	$ 2
Investment securities	1,886.0	12.3	0.65%	1,320.9	10.5	0.79%	1,962.3	1
Loans (including held for sale)[2][3]								
U.S.	18,145.2	986.0	5.84%	17,190.7	1,131.7	7.07%	19,452.5	1,60

	December 31, 2013			December 31, 2012			December	
Non-U.S.	4,123.6	367.9	8.92%	4,029.1	405.1	10.06%	4,566.2	58
Total loans[2]	22,268.8	1,353.9	6.44%	21,219.8	1,536.8	7.67%	24,018.7	2,19
Total interest earning assets / interest income[2][3]	29,263.6	1,382.8	4.94%	28,616.4	1,569.1	5.72%	32,376.4	2,22
Operating lease equipment, net (including held for sale)[4]								
U.S.[4]	6,559.0	613.1	9.35%	6,139.0	596.9	9.72%	5,186.7	42
Non-U.S.[4]	6,197.1	583.7	9.42%	6,299.0	654.5	10.39%	6,220.0	66
Total operating lease equipment, net[4]	12,756.1	1,196.8	9.38%	12,438.0	1,251.4	10.06%	11,406.7	1,09
Total earning assets[2]	42,019.7	$2,579.6	6.33%	41,054.4	$2,820.5	7.08%	43,783.1	$3,32
Non interest earning assets								
Cash due from banks	1,062.8			971.9			1,575.5	
Allowance for loan losses	(367.8)			(405.1)			(412.0)	
All other non-interest earning assets	2,586.5			2,671.1			3,094.0	
Total Average Assets	**$45,301.2**			**$44,292.3**			**$48,040.6**	
Average Liabilities								
Borrowings								
Deposits	$11,212.1	$ 179.8	1.60%	$ 7,707.9	$ 152.5	1.98%	$ 4,796.6	$ 11
Long-term borrowings[5]	21,506.4	958.2	4.46%	24,235.5	2,744.9	11.33%	30,351.5	2,68
Total interest-bearing liabilities	32,718.5	$1,138.0	3.48%	31,943.4	$2,897.4	9.07%	35,148.1	$2,79
Credit balances of factoring clients	1,258.6			1,194.4			1,098.1	
Other non-interest bearing liabilities	2,650.5			2,665.5			2,834.1	
Noncontrolling interests	9.2			5.0			1.1	
Stockholders equity	8,664.4			8,484.0			8,959.2	
Total Average Liabilities and Stockholders Equity	**$45,301.2**			**$44,292.3**			**$48,040.6**	
Net revenue spread			2.85%			(1.99)%		
Impact of non-interest bearing sources			0.69%			1.80%		
Net revenue/yield on earning assets[2]		$1,441.6	3.54%		$ (76.9)	(0.19)%		$ 52

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

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

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

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

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

Interest income on interest bearing deposits and investment securities was not significant in any of the years presented. The decline in average interest bearing deposits reflects the investment of cash in investment securities to earn a higher yield. The vast majority of our investment securities are high quality debt, primarily U.S. Treasury securities, U.S. Government Agency securities, and supranational and foreign government securities that typically mature in 91 days or less. We anticipate continued investment of our cash in various types of liquid, high-grade investments.

While interest income on loans benefited in 2013 from higher balances, interest income was down from 2012 and 2011 reflecting lower FSA accretion, which totaled $97 million in 2013, $268 million in 2012 and $745 million in 2011, change in product mix in Corporate Finance and sales of higher-yielding portfolios in Vendor Finance.

Net operating lease revenue was primarily generated from the commercial air and rail portfolios in each of the years presented. Net operating lease revenue decreased from 2012, as the benefit of increased assets from the growing aerospace and rail

portfolios was more than offset by higher depreciation expense and lower renewal rates. During 2013, on average, lease renewal rates in the rail portfolio were re-pricing higher, while the commercial air portfolio has been re-pricing slightly lower, putting pressure on overall rental revenue. Net operating lease revenue increased in 2012 from 2011 driven by higher assets in Transportation Finance and lower depreciation expense in Vendor Finance. The average rate on U.S. operating lease equipment, net increased in 2012 from 2011 reflecting strong asset utilization, including increased rail fleet utilization.

As a result of our debt redemption activities and the increased proportion of deposits to total funding, we reduced weighted average coupon rates of interest bearing liabilities to 3.07% at December 31, 2013 from 3.18% at December 31, 2012 and 4.69% at December 31, 2011. Deposits have increased, both in dollars and proportion of total CIT funding to 36% at December 31, 2013 compared to 31% at December 31, 2012 and 19% at December 31, 2011.

We continued to grow deposits during 2013 to fund lending activity in CIT Bank. The increase in interest expense in 2013 and 2012 was driven by higher balances. Online deposits, which were initiated in late 2011, grew $4.3 billion during 2012 and $1.5 billion in 2013. Brokered CDs and sweeps declined $1.1 billion during 2012 and increased $1.1 billion in 2013. The weighted average rate of total CIT deposits at December 31, 2013 was 1.65%, compared to 1.75% at December 31, 2012 and 2.68% at December 31, 2011.

Interest expense on long-term borrowings declined significantly from 2012 due to less FSA accretion and lower rates. FSA accretion increased interest expense by $82 million, $1.6 billion and $904 million for the years ended December 31, 2013, 2012 and 2011, respectively. The higher 2012 amounts resulted from accelerated FSA net discount on repayments of over $15 billion in high cost debt in the first three quarters and $1.0 billion of secured debt in the last quarter of 2012. During 2011, CIT had $9.5 billion in debt redemptions and extinguishments. The weighted average coupon rate of long-term borrowings at December 31, 2013 was 3.87%, compared to 3.81% at December 31, 2012 and 5.12% at December 31, 2011.

The table below disaggregates CIT s year-over-year changes (2013 versus 2012 and 2012 versus 2011) in net interest revenue and operating lease margins as presented in the preceding tables between volume (level of lending or borrowing) and rate (rates charged customers or incurred on borrowings). See ‘Net Finance Revenue section for further discussion.

Changes in Net Finance Revenue (dollars in millions)

	2013 Compared to 2012			2012 Compared to 2011		
	Increase (decrease) due to change in:			Increase (decrease) due to change in:		
	Volume	**Rate**	**Net**	**Volume**	**Rate**	**Net**
Interest Income						
Loans (including held for sale)						
U.S.	$ 55.7	$ (201.4)	$ (145.7)	$ (160.0)	$ (316.6)	$ (476.6)
Non-U.S.	8.4	(45.6)	(37.2)	(54.0)	(126.5)	(180.5)
Total loans	64.1	(247.0)	(182.9)	(214.0)	(443.1)	(657.1)
Interest bearing deposits	(3.1)	(2.0)	(5.1)	(1.1)	(1.4)	(2.5)
Investments	3.7	(2.0)	1.7	(5.1)	5.1	
Interest income	64.7	(251.0)	(186.3)	(220.2)	(439.4)	(659.6)
	29.7	(84.3)	(54.6)	100.8	58.2	159.0

	2013 Compared to 2012			2012 Compared to 2011		
Operating lease equipment, net (including held for sale)[1]						
Interest Expense						
Interest on deposits	56.2	(28.9)	27.3	57.6	(16.3)	41.3
Interest on long-term borrowings[2]	(121.6)	(1,665.1)	(1,786.7)	(692.7)	754.4	61.7
Interest expense	(65.4)	(1,694.0)	(1,759.4)	(635.1)	738.1	103.0
Net finance revenue	$ 159.8	$ 1,358.7	$ 1,518.5	$ 515.7	$(1,119.3)	$(603.6)

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

(2) *Includes acceleration of FSA accretion resulting from redemptions or extinguishments, prepayment penalties, and accelerated original issue discount on debt extinguishment related to the TRS facility.*

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

	Years Ended								
	December 31, 2013			December 31, 2012			December 31, 2011		
	Average Balance	**Interest**	**Average Rate (%)**	**Average Balance**	**Interest**	**Average Rate (%)**	**Average Balance**	**Interest**	**Average Rate (%)**
Revolving Credit Facility[1]	$	$ 15.6		$ 284.1	$ 18.6	6.56%	$	$	
Senior Unsecured Notes[2]	12,107.0	660.0	5.45%	12,957.2	1,613.8	12.45%			
Secured borrowings[2]	9,408.1	282.6	3.00%	10,355.1	428.7	4.14%	18,339.9	1,145.2	6.24%
Series A Notes[2]				856.2	683.8	79.86%	11,970.8	1,538.0	12.85%
Total Long-term Borrowings	$21,515.1	$958.2	4.45%	$24,452.6	$2,744.9	11.22%	$30,310.7	$2,683.2	8.85%

(1) *Interest expense and average rate includes Facility commitment fees and amortization of Facility deal costs.*

(2) *Interest expense includes accelerated FSA accretion (amortization), accelerated original issue discount and prepayment penalties on debt extinguishment, as presented in the following table.*

Accelerated FSA accretion (amortization), accelerated original issue discount and prepayment penalties on debt extinguishment (dollars in millions)

Years Ended December 31,

	2013	2012	2011
Senior Unsecured Notes	$25.9	$ 718.8	$ –
Secured Borrowings	4.6	82.6	4.5
Series A Notes		596.9	388.9
Total	$30.5	$1,398.3	$393.4

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

BACKGROUND

CIT Group Inc., together with its subsidiaries (we , our , CIT or the Company) has provided financial solutions to its clients since its formation in 1908. We provide financing, leasing and advisory services principally to middle market companies in a wide variety of industries and offer vendor, equipment, commercial and structured financing products, as well as factoring and management advisory services. We have $36 billion of financing and leasing assets at December 31, 2013. CIT became a bank holding company (BHC) in December 2008 and a financial holding company in July 2013. CIT is regulated by the Board of Governors of the Federal Reserve System (FRB) and the Federal Reserve Bank of New York (FRBNY) under the U.S. Bank Holding Company Act of 1956. CIT Bank (the Bank), a wholly-owned subsidiary, is a state chartered bank located in Salt Lake City, Utah, that offers commercial financing and leasing products as well as a suite of savings options and is subject to regulation by the Federal Depository Insurance Corporation (FDIC) and the Utah Department of Financial Institutions (UDFI).

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

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

2013 PRIORITIES

During 2013, we focused on growing earning assets, meeting our profitability target, expanding the Bank and returning capital to our shareholders. Enhancing internal control functions and our relationships with our regulators also remained an ongoing focus. The following examples highlight certain accomplishments towards these goals in 2013:

1. Prudently Grow Assets

We grew earning assets both organically through new originations and through portfolio acquisitions. We focused growth on existing products and markets as well as newer initiatives, such as real estate, equipment finance, and maritime finance.

-

Commercial financing and leasing assets grew 8%, reflecting origination volumes of over $10 billion, supplemented by loan portfolio acquisitions in Corporate Finance and Vendor Finance, which offset portfolio collections and sales. Newer initiatives, such as real estate, equipment finance and maritime finance, each contributed to this growth.

2. Continue to Achieve Profit Target

We focused on managing the business to improve profitability in order to achieve our target pre-tax return on average earning assets (AEA)[1] of between 2.0% and 2.5%.

- Our pre-tax return on AEA was 2.3%.

- Net Finance Revenue (NFR)[2] as a percentage of AEA (net finance margin or NFM) was 4.28%, improved from 2012. Excluding debt redemption charges, net finance margin was 4.37% for 2013, improved from 4.06% in 2012, driven by lower funding costs and the reduction of low yielding student loan assets. The weighted average coupon rate of outstanding deposits and long-term borrowings was 3.07% at December 31, 2013, down from 3.18% last year. At December 31, 2013, deposits were 36% of total CIT funding, up from last year and at the low end of our 35% 45% target range.

- For 2013, operating expenses were $985 million, including restructuring charges of $37 million. Operating expenses excluding restructuring charges(3) were 2.82% as a percentage of AEA, above the target range of 2.00% 2.50% and included $50 million related to the Tyco tax agreement settlement charge, and other costs resulting from our international rationalization efforts. Operating efficiency improvements were phased in over 2013 and the full benefits of these actions will likely be realized later in 2014. The complexities of exiting certain countries and platforms resulted in an elevated level of restructuring, legal and other related costs in 2013 and these costs may remain high for another few quarters.

- We lowered headcount by about 320 during 2013 to approximately 3,240, modified several benefit plans and consolidated some offices.

- The review of our Vendor Finance business resulted in the plan to exit over 20 countries across Europe, South America and Asia. During 2013, we exited countries and moved various portfolios of financing and leasing assets to assets held for sale. In addition, we are in the process of selling our small business lending portfolio in Corporate Finance, most of which is in Assets held for sale (AHFS).

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(1) *Average earning assets is a non-GAAP measure: see Non-GAAP Financial Measuements for a reconciliation of non-GAAP to GAAP financial information.*

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

(3) *Operating expenses excluding restructuring charges is a non-GAAP measure; see Non-GAAP Financial Measurements for reconciliation of non-GAAP to GAAP financial information.*

3. Expand CIT Bank Assets and Funding

The Bank originated virtually all of our U.S. lending and leasing volume, expanding online deposit product offerings and anticipates launching a retail branch in Salt Lake City.

- Total assets at the Bank surpassed $16 billion at December 31, 2013, up nearly $4 billion from December 31, 2012. Growth in commercial financing and leasing assets was funded through deposits and cash. New business volume totaled $7.1 billion in 2013, which represented nearly all U.S. new business volume for Corporate Finance, Transportation Finance and Vendor Finance. This volume was supplemented with a $720 million portfolio purchase early in the year, $272 million of loans purchased from BHC affiliates, and $67 million of loans transferred in the form of capital infusions from the BHC.

- Deposits grew nearly $3 billion, consistent with asset growth and the overall liquidity position of the Bank.

4. Begin to Return Capital

On May 30, 2013, our Board of Directors approved the repurchase of up to $200 million of common stock through December 31, 2013 and on October 21, 2013, declared a cash dividend in the amount of $0.10 per share on our outstanding common stock.

- We repurchased over four million shares for approximately $193 million.

- We paid a cash dividend of $0.10 per common share (approximately $20 million) on November 29, 2013.

On January 21, 2014, the Board of Directors declared a quarterly cash dividend of $0.10 per share payable on February 28, 2014, and approved the repurchase of up to $300 million of common stock through December 31, 2014. In addition, the Board also approved the repurchase of an additional $7 million of common stock, which was the amount unused from its 2013 share repurchase authorization.

2013 FINANCIAL OVERVIEW

As discussed below, our 2013 operating results reflected increased commercial business activity that resulted in asset growth, continued credit quality at cyclical lows and strategic business decisions that elevated operating expenses.

Net income for 2013 totaled $676 million, $3.35 per diluted share, compared to a net loss of $592 million for 2012, $2.95 per diluted share, and net income of $15 million for 2011, or $0.07 per diluted share. Debt redemption charges were significant in 2012 and 2011 and totaled $1.5 billion and $528 million, respectively, compared to $31 million in 2013.

Pre-tax income totaled $774 million for 2013, improved from a pre-tax loss in 2012 and pre-tax income of $178 million in 2011. Although higher on a GAAP basis, as detailed in the following table, adjusted pre-tax income excluding debt redemption charges(4) were mixed, down from 2012 and up from 2011. The decline from 2012 reflected a lower benefit from FSA accretion and a decline in other income, partially offset by improved funding costs. The increase from 2011 reflected improved funding costs and lower credit costs.

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

Pre-tax Income (Loss) Excluding Debt Redemption Charges (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Pre-tax income/(loss)	$774.1	$ (454.8)	$178.4
Accelerated FSA net discount/(premium) on debt extinguishments and repurchases	35.7	1,450.9	279.2
Debt related loss on debt extinguishments		61.2	134.8
Accelerated OID on debt extinguishments related to the GSI facility	(5.2)	(52.6)	114.2
Debt redemption charges and OID acceleration	30.5	1,459.5	528.2
Pre-tax income (loss) excluding debt redemption charges[4]	$804.6	$1,004.7	$706.6

Net finance revenue was $1.4 billion in 2013, compared to ($77) million in 2012 and $527 million in 2011, reflecting improved funding costs. The negative NFR for 2012 was driven by the acceleration of FSA discount accretion resulting from repayments of over $15 billion high cost debt. Growth in the commercial financing and leasing assets and improved funding costs increased NFR in 2013. AEA was $33.6 billion in 2013, up from $32.5 billion in 2012, due to growth in commercial financing and leasing assets, and down from $34.4 billion in 2011, primarily due to student loan sales. AEA in our commercial segments increased during 2013 to $30.1 billion from $27.6 billion in 2012 and $26.7 billion in 2011.

NFM was up in 2013. Excluding debt redemption charges, NFM was 4.37% for 2013, improved from 4.06% in 2012 and 2.67% in 2011, driven by lower funding costs and the reduction of low yielding assets. While other institutions may use net interest margin (NIM), defined as interest income less interest expense, we discuss NFM, which includes operating lease rental revenue and depreciation expense, due to their significant impact on revenue and expense. While asset utilization remained strong in 2013, net operating lease revenue was down slightly from 2012, reflecting pressure in certain renewal lease rates in the commercial air portfolio, and up compared to 2011 on higher assets.

Provision for credit losses for 2013 was $65 million, up from $52 million last year and down from $270 million in 2011. The increase from last year reflects growth in the loan portfolio, while overall credit quality remained at cyclical lows.

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(4) *Pre-tax income excluding debt redemption charges is a non-GAAP measure. Debt redemption charges include accelerated fresh start accounting debt discount amortization, accelerated original issue discount (OID) on debt extinguishment related to the GSI facility and loss on debt extinguishments is a non-GAAP measure. See Non-GAAP Financial Measements for reconciliation of non-GAAP to GAAP financial information.*

Other income of $382 million decreased from $653 million in 2012 and $953 million in 2011, largely due to reduced gains on assets sold, fewer recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale, and lower counterparty receivable accretion.

Operating expenses were $985 million, up from $918 million in 2012 and $897 million in 2011. Excluding restructuring costs, operating expenses were $948 million, $896 million and $884 million for 2013, 2012 and 2011, respectively. The current year included costs for certain legal matters, including $50 million of charges relating to the tax agreement settlement, and costs resulting from our international rationalization efforts. Headcount at December 31, 2013, 2012 and 2011 was approximately 3,240, 3,560, and 3,530, respectively.

Provision for income taxes was $92 million for 2013, and primarily related to income tax expense on the earnings of certain international operations, state income tax expense in the U.S. and the establishment of valuation allowances of over $20 million on certain international deferred tax assets due to our international platform rationalizations. The provision for income taxes was $134 million for 2012 and $159 million for 2011, which predominantly reflected provisions for taxable income generated by our international operations and no income tax benefit on our U.S. losses.

Total assets at December 31, 2013 were $47.1 billion, up from $44.0 billion at December 31, 2012 and $45.3 billion at December 31, 2011. Commercial financing and leasing assets (Commercial FLA) increased to $32.7 billion, up from $30.2 billion at December 31, 2012, and $27.9 billion at December 31, 2011, as new origination volume and portfolio purchases more than offset collections and sales. The Consumer loan portfolio, which was included in AHFS, totaled $3.4 billion at December 31, 2013, down $321 million from December 31, 2012 and down nearly $3 billion from December 31, 2011, reflecting sales during 2012 and collections of student loans. Cash and short-term investments totaled $7.6 billion, essentially unchanged from last year and down from $8.4 billion at December 31, 2011.

Credit metrics remained at cyclical lows, although net charge-offs in 2013 were elevated by amounts related to loans transferred to AHFS. Net charge-offs were $81 million (0.37% of average finance receivables) and included $39 million related to loans transferred to assets held for sale, compared to $74 million (0.37%) in 2012 and $265 million (0.53%) in 2011. Non-accrual balances declined to $241 million (1.29% of finance receivables) at December 31, 2013 from $332 million (1.59%) a year ago and $702 million (3.53%) at December 31, 2011.

2014 PRIORITIES

During 2014, we will focus on continued progress toward profitability targets by growing earning assets, managing expenses and growing CIT Bank assets and deposits. Enhancing internal control functions and our relationships with our regulators will also remain a focus for 2014.

Specific business objectives established for 2014 include:

- Grow Earning Assets We plan to grow earning assets, organically and through portfolio acquisitions, by focusing on existing products and markets as well as newer initiatives.

- Continue to Achieve Profit Targets Our pre-tax return on asset target is currently within the targeted range of 2.0% and 2.5% of AEA, but we need to improve our operating expense metric to sustain this level through the business cycle. We plan to achieve operating leverage through growth and cost reduction initiatives.

- Expand CIT Bank Assets and Funding CIT Bank will continue to fund virtually all of our U.S. lending and leasing volume, expand on-line deposit offerings and anticipates launching a retail branch in Salt Lake City.

- Continue to Return Capital We plan to prudently deploy our capital, which will include returning capital to our shareholders through share repurchases and dividends, while maintaining our strong capital ratios.

2014 SEGMENT REORGANIZATION

In December 2013, we announced organization changes that became effective January 1, 2014. In conjunction with management s plans to (i) realign and simplify its businesses and organizational structure, (ii) streamline and consolidate certain business processes to achieve greater operating efficiencies, and (iii) leverage CIT s operational capabilities for the benefit of its clients and customers, CIT will manage its business and report its financial results in three operating segments (the New Segments): (1) Transportation and International Finance; (2) North American Commercial Finance; and (3) Non-Strategic Portfolios. CIT s New Segments will be established based on how CIT s business units will be managed prospectively and how products and services will be provided to clients and customers by each business unit. The change in segment reporting will have no effect on CIT s historical consolidated results of operations.

- Transportation and International Finance will include CIT s commercial aircraft, business aircraft, rail, and maritime finance business units. Each of these businesses is currently included in CIT s Transportation Finance segment. The Transportation and International Finance segment will also include corporate lending businesses outside of North America (currently part of the Corporate Finance Segment) and vendor finance businesses outside of North America (currently part of the Vendor Finance Segment). CIT s transportation lending business, which offers cash flow and asset-based loan products to commercial businesses in the transportation sector, is currently part of the Transportation Segment and will be included in the North American Commercial Finance segment.

- North American Commercial Finance will consist of CIT s former Trade Finance segment, North American business units currently in the Corporate Finance and Vendor Finance segments, and the transportation lending business, which is currently reflected in the Transportation Finance segment.

- Non-Strategic Portfolios will consist of CIT s run-off government-guaranteed student loan portfolio, small business lending portfolio and other portfolios, including over 20 countries in Europe, Asia and South America we identified as subscale platforms during our international rationalization.

The discussions below for 2013, 2012 and 2011 relate to segment operations on the basis of the segments that existed prior to the reorganization at January 1, 2014 and was consistent with the presentation of financial information to management.

PERFORMANCE MEASUREMENTS

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

KEY PERFORMANCE METRICS	MEASUREMENTS
Asset Generation to originate new business and build earning assets.	-Origination volumes; and -Financing and leasing assets balances.
Revenue Generation lend money at rates in excess of cost of borrowing, earn rentals on the equipment we lease commensurate with the risk, and generate other revenue streams.	-Net finance revenue and other income; -Asset yields and funding costs; -Net finance revenue as a percentage of average earning assets (AEA); and -Operating lease revenue as a percentage of average operating lease equipment.
Credit Risk Management accurately evaluate credit worthiness of customers, maintain high-quality assets and balance income potential with loss expectations.	-Net charge-offs; -Non-accrual loans; classified assets; delinquencies; and -Loan loss reserve.
Equipment and Residual Risk Management appropriately evaluate collateral risk in leasing transactions and remarket or sell equipment at lease termination.	-Equipment utilization; -Value of equipment; and -Gains and losses on equipment sales.
Expense Management maintain efficient operating platforms and related infrastructure.	-Operating expenses and trends; and -Operating expenses as a percentage of AEA.
Profitability generate income and appropriate returns to shareholders.	-Net income per common share (EPS); -Net income and pre-tax income, each as a percentage of average earning assets (ROA); and -Net income as a percentage of average common equity (ROE).
Capital Management maintain a strong capital position.	-Tier 1 and Total capital ratio; and -Tier 1 capital as a percentage of adjusted average assets (Tier 1 Leverage Ratio).
Liquidity Risk maintain access to ample funding at competitive rates.	-Cash and short term investment securities; -Committed and available funding facilities; -Debt maturity profile; and -Debt ratings.
Market Risk substantially insulate profits from movements in interest and foreign currency exchange rates.	-Net Interest Income Sensitivity; and -Economic Value of Equity (EVE).

NET FINANCE REVENUE

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

Net Finance Revenue(1) (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Interest income	$ 1,382.8	$ 1,569.1	$ 2,228.7
Rental income on operating leases	1,770.3	1,784.6	1,667.5
Finance revenue	3,153.1	3,353.7	3,896.2

	Years Ended December 31,		
Interest expense	(1,138.0)	(2,897.4)	(2,794.4)
Depreciation on operating lease equipment	(573.5)	(533.2)	(575.1)
Net finance revenue	$ 1,441.6	$ (76.9)	$ 526.7
Average Earning Assets[2] (AEA)	$33,649.6	$32,522.0	$34,371.6
AEA commercial segments	$30,117.8	$27,601.8	$26,655.4
As a % of AEA:			
Interest income	4.11%	4.82%	6.48%
Rental income on operating leases	5.26%	5.49%	4.85%
Finance revenue	9.37%	10.31%	11.33%
Interest expense	(3.38)%	(8.91)%	(8.13)%
Depreciation on operating lease equipment	(1.71)%	(1.64)%	(1.67)%
Net finance revenue	4.28%	(0.24)%	1.53%
As a % of AEA by Segment:			
Corporate Finance	3.09%	0.83%	3.02%
Transportation Finance	5.05%	0.14%	2.14%
Trade Finance	2.86%	(2.06)%	(1.27)%
Vendor Finance	7.15%	4.08%	6.90%
Commercial Segments	4.75%	0.98%	3.18%
Consumer	1.51%	(1.06)%	(0.31)%

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

(2) *AEA are less than comparable balances displayed in this document in Item 6. Selected Financial Data (Average Balances) due to the exclusion of deposits with banks and other investments and the inclusion of credit balances of factoring clients.*

NFR and NFM are key metrics used by management to measure the profitability of our lending and leasing assets. NFR includes interest and yield-related fee income on our loans and capital leases, rental income and depreciation from our operating lease equipment, interest and dividend income on cash and investments, as well as funding costs. Since our asset composition includes a high level of operating lease equipment (37% of AEA for the year ended December 31, 2013), NFM is a more appropriate metric for CIT than net interest margin (NIM) (a common metric used by other BHCs), as NIM does not fully reflect the earnings of our portfolio because it includes the impact of debt costs on all our assets but excludes the net revenue (rental income less depreciation) from operating leases.

NFR increased from 2012 and 2011 largely due to the negative impact of significantly higher debt FSA discount accretion, resulting from repayments of high cost debt in those years. The adjustments, accelerated debt FSA accretion and accelerated OID on debt extinguishment related to the GSI facility (accelerated OID accretion), which when discussed in combination, is referred to as accelerated debt FSA and OID accretion . As detailed in the following table, absent accelerated debt FSA and OID accretion and prepayment costs, adjusted NFR was up, benefiting from lower funding costs and higher commercial assets. The 2013 accelerated debt FSA and OID accretion resulted from the repayment of senior unsecured notes issued under our InterNotes retail note program and $5 million on the redemption of secured debt related to the sale of a small business loan portfolio. The 2012 and 2011 FSA interest expense accretion amounts reflect repayments of Series A and C Notes. See InterNotes in *Funding and Liquidity*.

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

Adjusted NFR[1] ($) and NFM[1] (%) (dollars in millions)

	Years Ended December 31,					
	2013		2012		2011	
NFR / NFM	$1,441.6	4.28%	$ (76.9)	(0.24)%	$526.7	1.53%
Accelerated FSA net discount/(premium) on debt extinguishments and repurchases	35.7	0.11%	1,450.9	4.46%	279.2	0.81%
Debt related prepayment costs					114.2	0.33%
Accelerated OID accretion	(5.2)	(0.02)%	(52.6)	(0.16)%		
Adjusted NFR / NFM	$1,472.1	4.37%	$1,321.4	4.06%	$920.1	2.67%

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

NFM was up from 2012 and 2011, primarily reflecting lower accelerated debt FSA accretion while adjusted NFM improved over the 2012 and 2011 periods, primarily reflecting lower funding costs.

The adjusted net finance margin increased, reflecting continued benefits from lower funding costs, elevated levels of interest recoveries and suspended depreciation, partially offset by lower FSA loan accretion and yield compression on certain assets.

- Lower finance revenue in 2013 reflected pressure on certain renewal lease rates in the commercial air portfolio and the sale of the Dell Europe portfolio, which contained high-yielding assets. The revenue decline from 2012 and 2011 was partially offset by higher commercial earning assets. While total AEA was up 3% from 2012 and down 2% from 2011, commercial segment AEA increased 9% from 2012 and 13% from 2011. Interest income was down from 2012 and 2011 reflecting lower FSA accretion, which totaled $97 million in 2013, $268 million in 2012 and $745 million in 2011. The remaining accretable FSA discount on loans was $35 million at December 31, 2013. See *Fresh Start Accounting* section later in this document.

- Interest recoveries, which result from events such as prepayments on or sales of non-accrual assets and assets returning to accrual status, and certain other yield-related fees, were up in 2012, but moderated in 2013.

- NFM continued to benefit from suspended depreciation, $73 million in 2013, on operating lease equipment held for sale, since depreciation is not recorded while this equipment is held for sale (detailed further below). This benefit was down from 2012, primarily due to the sale of the Dell Europe portfolio in the third and fourth quarters, but slightly higher compared to 2011. We expect this benefit will decline further reflecting lower operating lease assets held for sale. See *Results by Business Segment Vendor Finance* for further discussion on the Dell Europe portfolio sale.

- Lower funding costs of 3.07% at December 31, 2013 resulted from our liability management actions, which included paying off high cost debt in 2012 and 2011, and increasing the proportion of deposits in our funding mix to 36%, as discussed further below.

- Net FSA accretion (excluding accelerated FSA on debt extinguishments and repurchases noted in the above table) increased NFR by $243 million in 2013, $269 million in 2012 and $305 million in 2011.

Interest expense was increased by the accretion of FSA discounts on long-term borrowings of $82 million, $1.6 billion and $904 million for the years ended December 31, 2013, 2012 and 2011, respectively. The 2013 accelerated debt FSA and OID accretion resulted from the repayment of senior unsecured notes issued under our InterNotes retail note program and $5 million on the redemption of secured debt related to the sale of a small business loan portfolio. The higher 2012 amounts resulted from repayments of over $15 billion in high cost debt in the first three quarters and $1.0 billion of secured debt in the last quarter of 2012. During 2011, CIT had $9.5 billion in debt redemptions and extinguishments. At December 31, 2013, long-term borrowings included $271 million of remaining FSA discount on secured borrowings (including $231 million secured by student loans) and $13 million on unsecured other debt.

As a result of our debt redemption activities and the increased proportion of deposits to total funding, we reduced weighted average coupon rates of outstanding deposits and long-term borrowings to 3.07% at December 31, 2013 from 3.18% at December 31, 2012 and 4.69% at December 31, 2011. The weighted average coupon rate of long-term borrowings at December 31, 2013 was 3.87%, compared to 3.81% at December 31, 2012 and 5.12% at December 31, 2011.

Deposits have increased, both in dollars and proportion of total CIT funding to 36% at December 31, 2013 compared to 31% at December 31, 2012 and 19% at December 31, 2011. The weighted average rate of total CIT deposits at December 31, 2013 was 1.65%, compared to 1.75% at December 31, 2012 and 2.68% at December 31, 2011. Deposits and long-term borrowings are discussed in Funding and Liquidity. See Select Financial Data section for more information on Long-term borrowing rates.

The following table sets forth the details on net operating lease revenues[5]:

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

	Years Ended December 31,					
	2013		2012		2011	
Rental income on operating leases	$ 1,770.3	14.20%	$ 1,784.6	14.78%	$ 1,667.5	14.85%
Depreciation on operating lease equipment	(573.5)	(4.60)%	(533.2)	(4.42)%	(575.1)	(5.12)%
Net operating lease revenue and %	$ 1,196.8	9.60%	$ 1,251.4	10.36%	$ 1,092.4	9.73%
Average Operating Lease Equipment (AOL)	$12,463.8		$12,072.9		$11,228.9	

Net operating lease revenue was primarily generated from the commercial air and rail portfolios. Net operating lease revenue decreased from 2012, as the benefit of increased assets from the growing aerospace and rail portfolios was more than offset by higher depreciation expense and lower renewal rates. During 2013, on average, lease renewal rates in the rail portfolio were re-pricing higher, while the commercial air portfolio has been re-pricing slightly lower, putting pressure on overall rental revenue. These factors are also reflected in the net operating lease revenue as a percent of AOL. Net operating lease revenue increased in 2012 from 2011 driven by higher assets in Transportation Finance and lower depreciation expense in Vendor Finance.

While utilization and asset levels remained strong in 2013, rental income decreased slightly from 2012 reflecting asset sales and pressure on certain aircraft renewal rates through most of the year that moderated by year end. Commercial aircraft utilization remained strong throughout 2013 with nearly all of our portfolio leased or under a commitment, and was consistent with 2012 and 2011. During 2013, our rail fleet utilization remained relatively steady. Including commitments, rail fleet utilization was over 98% at December 31, 2013, at about the same level as December 31, 2012 and up from 97% at December 31, 2011.

We have 20 new aircraft deliveries scheduled for 2014, all of which are placed. We expect to re-lease approximately 50 commercial aircraft in 2014, a level that is significantly higher than in recent years and will likely put pressure on the finance margin in 2014 if lease rates for certain aircraft remain at current levels. We expect delivery of approximately 4,600 railcars from our order book during 2014, all of which are placed. We expect lease expirations for rail equipment in 2014 will represent slightly over 20% of the rail portfolio, a level that is lower than recent experience.

Depreciation on operating lease equipment increased from 2012, reflecting higher asset balances and changes to residual value assumptions. Depreciation expense is adjusted when projected fair value at the end of the lease term is below the projected book value at the end of the lease term. The 2012 results compared to 2011 benefited from lower depreciation expense, primarily in the Vendor Finance business, as a result of certain operating lease equipment being recorded as held for sale. Once a long-lived asset is classified as assets held for sale, depreciation expense is no longer recognized, but the asset is evaluated for impairment with any such charge recorded in other income. (See *Non-interest Income Impairment on assets held for sale* for discussion on impairment charges). Consequently, net operating lease revenue includes rental income on operating lease equipment classified as assets held for sale, but there is no related depreciation expense. The amount of suspended depreciation on operating lease equipment in assets held for sale totaled $73 million for 2013, $96 million for 2012 and $68 million for 2011. The decrease from 2012 primarily reflects the sale of the Dell Europe portfolio in the third and fourth quarters of 2013.

Operating lease equipment in assets held for sale totaled $205 million at December 31, 2013, primarily reflecting aerospace assets and to a lesser extent, assets related to the Vendor Finance international rationalization. Operating lease equipment in assets held for sale totaled $344 million at December 31, 2012 and $237 million at December 31, 2011, primarily reflecting the Dell Europe platform assets, which were sold in 2013, and transportation equipment. See discussion of Dell Europe platform sale in *Results by Business Segment Vendor Finance*.

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

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

CREDIT METRICS

Management believes that credit metrics are at, or near, cyclical lows, and does not expect sustained improving trends from these levels. Given current levels, sequential quarterly movements in non-accrual loans and charge-offs in Corporate Finance, Trade Finance and Transportation Finance are subject to volatility as larger accounts migrate in and out of non-accrual status or get resolved. Given the smaller ticket, flow nature of Vendor Finance, we do not expect quarter-over-quarter movements in these metrics to be as significant in this business.

As a percentage of average finance receivables, net charge-offs in the Commercial segments were 0.44% in the current year, versus 0.46% in 2012 and 1.68% in 2011. Absent AHFS transfer related charge-offs, net charge-offs in the Commercial segments were 0.23% for the year ended December 31, 2013. Non-accrual loans in the Commercial segments declined an additional 27% to $241 million (1.29% of Finance receivables) from $330 million (1.93%) at December 31, 2012 and $701 million (4.61%) at December 31, 2011. The improvement was driven by Corporate Finance and Transportation Finance.

The provision for credit losses was $65 million for the current year, up from $52 million in 2012 following a significant decline from $270 million in 2011. The increase in 2013 reflected asset growth and $39 million of charge-offs due to loans transferred to AHFS. The improvement in 2012 reflected lower net charge-offs.

The allowance for loan losses is intended to provide for losses inherent in the portfolio based on estimates of the ultimate outcome of collection efforts, realization of collateral values, and other pertinent factors, such as estimation risk related to performance in prospective periods. We may make adjustments to the allowance depending on general economic conditions and specific industry weakness or trends in our portfolio credit metrics, including non-accrual loans and charge-off levels and realization rates on collateral.

Our allowance for loan losses includes: (1) specific reserves for impaired loans, (2) non-specific reserves for losses inherent in non-impaired loans utilizing the Company s internal probability of default / loss given default ratings system, generally with a two year loss emergence period assumption, to determine estimated loss levels and (3) a qualitative adjustment to the non-specific reserve for economic risks, industry and geographic concentrations, and other factors not adequately captured in our methodology. Our policy is to recognize losses through charge-offs when there is high likelihood of loss after considering the borrower s financial condition, underlying collateral and guarantees, and the finalization of collection activities.

For all presentation periods, qualitative adjustments largely related to instances where management believed that the Company s current risk ratings in selected portfolios did not yet fully reflect the corresponding inherent risk. The qualitative adjustments did not exceed 10% of the total allowance for any of such periods and are recorded by class and included in the allowance for loan losses.

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

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

	Years ended December 31				
	CIT				Predecessor CIT
	2013	**2012**	**2011**	**2010**	**2009**
Allowance beginning of period	$ 379.3	$ 407.8	$ 416.2	$	$ 1,096.2
Provision for credit losses[1]	64.9	51.6	269.7	820.3	2,660.8
Change related to new accounting guidance[2]				68.6	
Other[1]	(7.4)	(5.9)	(12.9)	(8.2)	(12.2)
Net additions	57.5	45.7	256.8	880.7	2,648.6
Gross charge-offs[3]	(138.6)	(141.8)	(368.8)	(510.3)	(2,068.2)
Recoveries[4]	57.9	67.6	103.6	45.8	109.6
Net Charge-offs	(80.7)	(74.2)	(265.2)	(464.5)	(1,958.6)
Allowance before fresh start adjustments	356.1	379.3	407.8	416.2	1,786.2
Fresh start adjustments					(1,786.2)
Allowance end of period	$ 356.1	$ 379.3	$ 407.8	$ 416.2	$
Provision for credit losses					
Specific reserves on commercial impaired loans	$ (14.8)	$ (9.4)	$ (66.7)	$ 121.3	
Non-specific reserves commercial	(1.0)	(13.2)	71.2	234.5	
Net charge-offs commercial	80.7	73.7	262.1	439.2	
Net charge-offs consumer		0.5	3.1	25.3	
Total	$ 64.9	$ 51.6	$ 269.7	$ 820.3	
Allowance for loan losses					
Specific reserves on commercial impaired loans	$ 30.4	$ 45.2	$ 54.6	$ 121.3	
Non-specific reserves commercial	325.7	334.1	353.2	294.9	
Total	$ 356.1	$ 379.3	$ 407.8	$ 416.2	
Ratios					
Allowance for loan losses as a percentage of total loans	1.91%	1.82%	2.05%	1.69%	
Allowance for loan losses as a percentage of commercial loans	1.91%	2.21%	2.68%	2.51%	

(1) *Includes amounts related to reserves on unfunded loan commitments and letters of credit, and for deferred purchase agreements, which are reflected in other liabilities, as well as foreign currency translation adjustments. These related other liabilities totaled $28 million, $23 million, $22 million and $12 million at December 31, 2013, 2012, 2011 and 2010, respectively.*

(2)

Reflects reserves associated with loans consolidated in accordance with 2010 adoption of accounting guidance on consolidation of variable interest entities.

(3) *Gross charge-offs included $39 million of charge-offs related to the transfer of receivables to assets held for sale for the year ended December 31, 2013. Prior year amounts were not significant.*

(4) *Recoveries for the years ended December 31, 2013, 2012, 2011 and 2010 do not include $22 million, $55 million, $124 million and $279 million, respectively, of recoveries of loans charged off pre-emergence and loans charged off prior to the transfer to assets held for sale, which are included in Other Income.*

The trend in lower allowance rate to commercial loans reflects the relative benign credit environment, as well as the better quality of the new originations relative to the lower credit quality legacy assets that had higher expected losses. Non-commercial loans (predominately U.S. government guaranteed student loans which carry no related reserves) were moved to assets held for sale as of December 31, 2013 and as such are no longer included in total loans. The decline in specific reserves over the past two years is consistent with reduced non-accrual inflows and balances.

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

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance	Commercial Segments	Consumer	Total
December 31, 2013							
Finance Receivables	$9,465.9	$2,181.3	$2,262.4	$4,719.6	$18,629.2	$	$18,629.2
Allowance for Loan Losses	(217.5)	(32.0)	(25.5)	(81.1)	(356.1)		(356.1)
Net Carrying Value	$9,248.4	$2,149.3	$2,236.9	$4,638.5	$18,273.1	$	$18,273.1
December 31, 2012							
Finance Receivables	$8,175.9	$1,853.2	$2,305.3	$4,818.7	$17,153.1	$3,694.5	$20,847.6
Allowance for Loan Losses	(229.9)	(36.3)	(27.4)	(85.7)	(379.3)		(379.3)
Net Carrying Value	$7,946.0	$1,816.9	$2,277.9	$4,733.0	$16,773.8	$3,694.5	$20,468.3
December 31, 2011							
Finance Receivables	$6,865.4	$1,487.0	$2,431.4	$4,442.0	$15,225.8	$4,680.1	$19,905.9
Allowance for Loan Losses	(262.2)	(29.3)	(29.0)	(87.3)	(407.8)		(407.8)
Net Carrying Value	$6,603.2	$1,457.7	$2,402.4	$4,354.7	$14,818.0	$4,680.1	$19,498.1
December 31, 2010							
Finance Receivables	$8,072.9	$1,390.3	$2,387.4	$4,721.9	$16,572.5	$8,075.9	$24,648.4
Allowance for Loan Losses	(304.0)	(23.7)	(29.9)	(58.6)	(416.2)		(416.2)
Net Carrying Value	$7,768.9	$1,366.6	$2,357.5	$4,663.3	$16,156.3	$8,075.9	$24,232.2

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

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

	Years Ended December 31,									
	CIT								Predecessor CIT	
	2013		2012		2011		2010		2009	
Gross Charge-offs										
Corporate Finance[1]	$ 44.8	0.50%	$ 52.7	0.70%	$239.6	3.31%	$257.7	2.49%	$1,427.2	7.92%
Transportation Finance	4.5	0.23%	11.7	0.69%	6.6	0.48%	4.8	0.29%	3.4	0.14%
Trade Finance	4.4	0.19%	8.6	0.36%	21.1	0.85%	29.8	1.12%	111.8	2.42%
Vendor Finance[1]	84.9	1.74%	67.8	1.49%	97.2	2.16%	191.9	2.81%	386.4	3.36%
Commercial Segments	138.6	0.76%	140.8	0.87%	364.5	2.34%	484.2	2.25%	1,928.8	5.27%
Consumer			1.0	0.02%	4.3	0.06%	26.1	0.30%	139.4	1.17%
Total	$138.6	0.64%	$141.8	0.70%	$368.8	1.61%	$510.3	1.68%	$2,068.2	4.27%
Recoveries[2]										
Corporate Finance	$ 17.5	0.20%	$ 20.3	0.27%	$ 33.5	0.46%	$ 12.0	0.12%	$ 40.4	0.22%
Transportation Finance	2.0				0.1	0.01%			0.9	0.04%
Trade Finance	7.8	0.33%	7.8	0.33%	10.9	0.44%	1.2	0.04%	3.2	0.07%
Vendor Finance	30.6	0.62%	39.0	0.86%	57.9	1.29%	31.8	0.47%	58.0	0.50%
Commercial Segments	57.9	0.32%	67.1	0.41%	102.4	0.66%	45.0	0.21%	102.5	0.28%
Consumer			0.5	0.01%	1.2	0.02%	0.8	0.01%	7.1	0.06%
Total	$ 57.9	0.27%	$ 67.6	0.33%	$103.6	0.45%	$ 45.8	0.15%	$ 109.6	0.23%
Net Charge-offs[1]										
Corporate Finance	$ 27.3	0.30%	$ 32.4	0.43%	$206.1	2.85%	$245.7	2.37%	$1,386.8	7.70%
Transportation Finance	2.5	0.13%	11.7	0.69%	6.5	0.47%	4.8	0.29%	2.5	0.10%
Trade Finance	(3.4)	(0.14)%	0.8	0.03%	10.2	0.41%	28.6	1.08%	108.6	2.35%
Vendor Finance	54.3	1.12%	28.8	0.63%	39.3	0.87%	160.1	2.34%	328.4	2.86%
Commercial Segments	80.7	0.44%	73.7	0.46%	262.1	1.68%	439.2	2.04%	1,826.3	4.99%
Consumer			0.5	0.01%	3.1	0.04%	25.3	0.29%	132.3	1.11%
Total	$ 80.7	0.37%	$ 74.2	0.37%	$265.2	1.16%	$464.5	1.53%	$1,958.6	4.04%

(1) *Corporate Finance charge-offs for the years ended December 31, 2013 included approximately $28 million related to the transfer of receivables to assets held for sale. Vendor Finance charge-offs for the year ended December 31, 2013 included approximately $11 million related to the transfer of receivables to assets held for sale.*

(2) *Does not include recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale, which are recorded in Other Income.*

Net charge-offs in the Commercial segments declined in 2013 to 0.44% from 0.46% in 2012, although increased in dollar terms to $81 million in 2013 from $74 million in 2012, with all segments, except Vendor Finance, contributing to the decline. Absent the charge-offs related to loans transferred to AHFS ($39 million) in the year ended December 31, 2013, the net charge-offs would have been $41 million (0.23% of commercial segments AFR). The Vendor Finance net charge-offs increased to $54 million at December 31, 2013 from $29 million at December 31, 2012, reflecting increased charge-offs in the international operations, lower recoveries in 2013, and charge-offs of $11 million related to loans transferred to AHFS. Recoveries, while down from 2012 in amount, remained strong in relation to gross charge-offs.

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

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

	2013	2012	2011	2010	2009
Non-accrual loans					
U.S.	$176.3	$273.2	$623.3	$1,336.1	$1,465.5
Foreign	64.4	57.0	77.8	280.7	108.8
Commercial Segments	240.7	330.2	701.1	1,616.8	1,574.3
Consumer		1.6	0.9	0.7	0.1
Non-accrual loans	$240.7	$331.8	$702.0	$1,617.5	$1,574.4
Troubled Debt Restructurings					
U.S.	$218.0	$263.2	$427.5	$ 412.4	$ 116.5
Foreign	2.9	25.9	17.7	49.3	4.5
Restructured loans	$220.9	$289.1	$445.2	$ 461.7	$ 121.0
Accruing loans past due 90 days or more					
Government guaranteed accruing student loans past due 90 days or more	$223.7	$231.4	$390.3	$ 433.6	$ 480.7
Other accruing loans past due 90 days or more	10.0	3.4	2.2	1.7	89.4
Accruing loans past due 90 days or more	$233.7	$234.8	$392.5	$ 435.3	$ 570.1

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

	2013		2012		2011	
Corporate Finance	$126.7	1.34%	$211.9	2.59%	$497.9	7.26%
Transportation Finance	14.3	0.66%	40.5	2.18%	45.0	3.03%
Trade Finance	4.2	0.19%	6.0	0.26%	75.3	3.10%
Vendor Finance	95.5	2.02%	71.8	1.49%	82.9	1.87%
Commercial Segments	240.7	1.29%	330.2	1.93%	701.1	4.61%
Consumer			1.6	0.04%	0.9	0.02%
Total	$240.7	1.29%	$331.8	1.59%	$702.0	3.53%

Similar to last year, non-accrual loans declined from the prior year, with all commercial segments other than Vendor Finance reporting reductions, both in amount and as a percentage of finance receivables. The improvement in 2013 was particularly noteworthy in Corporate Finance, which reflected repayments and resolutions, as well as returns to accrual status where appropriate. Although total foreign non-accruals were up $7 million from December 31, 2012, there was a larger increase in Vendor Finance international operations, which was partially offset by a reduction in Transportation Finance. As mentioned earlier, Transportation Finance is subject to volatility as larger accounts migrate in and out of non-accrual status or get resolved, which is reflective of the decline in 2013.

Approximately 60% of our non-accrual accounts were paying currently at December 31, 2013, and our impaired loan carrying value (including FSA discount, specific reserves and charge-offs) to estimated outstanding contractual balances approximated 80%. For this purpose, impaired loans are comprised principally of non-accrual loans over $500,000 and TDRs.

Total delinquency (30 days or more) in our commercial segments were up as a percentage of finance receivables at 2.0%, an increase of $69 million compared to December 31, 2012. The 30 59 day category increased $31 million, reflecting certain non-credit (administrative) delinquencies in Vendor Finance, which offset a decline in Trade Finance. Increases in the 60 89 and 90+ categories reflected higher Vendor Finance balances, primarily in the International businesses.

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

	2013			2012			2011		
	U.S.	Foreign	Total	U.S.	Foreign	Total	U.S.	Foreign	Total
Interest revenue that would have been earned at original terms	$52.9	$12.4	$65.3	$66.5	$12.1	$78.6	$169.4	$18.6	$188.0
Less: Interest recorded	18.4	4.2	22.6	23.7	3.7	27.4	18.7	6.0	24.7
Foregone interest revenue	$34.5	$ 8.2	$42.7	$42.8	$ 8.4	$51.2	$150.7	$12.6	$163.3

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

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

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

	2013		2012		2011	
		% Compliant		% Compliant		% Compliant
Troubled Debt Restructurings						
Deferral of principal and/or interest	$194.6	99%	$248.5	98%	$394.8	94%
Debt forgiveness	2.4	77%	2.5	95%	12.5	96%
Interest rate reductions			14.8	100%	19.0	100%
Covenant relief and other	23.9	74%	23.3	80%	18.9	77%
Total TDRs	$220.9	96%	$289.1	97%	$445.2	94%
Percent non accrual	33%		29%		63%	
Modifications[(1)]						

	2013		2012		2011	
Extended maturity	$ 14.9	37%	$111.5	97%	$172.8	100%
Covenant relief	50.6	100%	113.6	100%	153.5	100%
Interest rate increase/additional collateral	21.8	100%	79.6	100%	14.6	100%
Other	62.6	87%	62.4	100%	112.5	100%
Total Modifications	$149.9	91%	$367.1	99%	$453.4	100%
Percent non-accrual	23%		25%		7%	

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

See *Note 2 Loans* for additional information regarding TDRs and other credit quality information.

NON-INTEREST INCOME

Non-interest Income (dollars in millions)

	Years Ended December 31,		
	2013	2012	2011
Rental income on operating leases	$1,770.3	$1,784.6	$1,667.5
Other Income:			
Gains on sales of leasing equipment	$ 130.5	$ 117.6	$ 148.4
Factoring commissions	122.3	126.5	132.5
Fee revenues	101.5	86.1	97.5
Gains on loan and portfolio sales	48.6	192.3	305.9
Recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale	21.9	55.0	124.1
Counterparty receivable accretion	9.3	96.1	109.9
Gain on investments	8.2	40.2	45.7
Gains (losses) on derivatives and foreign currency exchange	1.0	(5.7)	(5.2)
Impairment on assets held for sale	(124.0)	(115.6)	(113.1)
Other revenues	62.8	60.6	107.1
Other income	382.1	653.1	952.8
Non-interest income	$2,152.4	$2,437.7	$2,620.3

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

Rental income on operating leases from equipment we lease is recognized on a straight line basis over the lease term. Rental income is discussed in *Net Finance Revenues* and *Results by Business Segment* . See also *Concentrations Operating Leases* and *Note 4 Operating Lease Equipme* for additional information on operating leases.

Other income declined in 2013 and 2012 reflecting the following:

Gains on sales of leasing equipment resulted from the sale of leasing equipment of approximately $1.2 billion in 2013, $1.3 billion in 2012, and $1.1 billion in 2011. Gains as a percentage of equipment sold increased from the prior year and were less than 2011 and will vary based on the type and age of equipment sold. Equipment sales for 2013 consisted of $0.8 billion in Transportation Finance assets, $0.3 billion in Vendor Finance assets and $0.1 billion in Corporate Finance assets. Equipment sales for 2012 consisted of $0.7 billion in Transportation Finance assets, with the remainder split between Vendor Finance assets and Corporate Finance assets. Equipment sales for 2011 consisted of $0.5 billion in Transportation Finance assets, $0.4 billion in Vendor Finance assets and $0.2 billion in Corporate Finance assets.

Factoring commissions declined slightly, reflecting the change in the underlying portfolio product mix, which offset a modest increase in factoring volume in 2013 compared to 2012, while 2012 was down from 2011 mostly due to lower factoring volume.

Fee revenues include fees on lines of credit and letters of credit, capital markets-related fees, agent and advisory fees, and servicing fees for the loans we sell but retain servicing, including servicing fees in the small business lending portfolio, which is in assets held for sale at December 31, 2013. Fee revenues are mainly driven by our Corporate Finance segment. The increase from the prior year periods include higher fees from capital markets activities. Fee revenues generated for servicing the small business lending portfolio totaled approximately $11 million for 2013 and 2012 and $14 million in 2011. These fees will no longer be earned upon the sale of that portfolio, which is expected to close in 2014.

Gains on loan and portfolio sales reflected 2013 sales volume of $0.9 billion, which consisted of $0.6 billion in Vendor Finance, $0.2 billion in Corporate Finance, and $0.1 billion in Transportation Finance. Over 80% of 2013 gains related to Vendor Finance and included gains from the sale of the Dell Europe portfolio. The 2012 sales volume totaled $2.5 billion, which consisted of $2.1 billion in Consumer (student loans) and $0.4 billion in Corporate Finance. Corporate Finance generated over 80% of the 2012 gains as a result of high gains as a percentage of sales from sales of low carrying value loans that were on non-accrual and included FSA adjustments. Sales volume was $2.5 billion in 2011, which consisted of $1.3 billion in Consumer, $0.7 billion in Corporate Finance (which generated over 70% of 2011 gains), $0.4 billion in Vendor Finance, and approximately $0.1 billion in Transportation Finance.

Recoveries of loans charged off pre-emergence and loans charged off prior to transfer to held for sale reflected repayments or other workout resolutions on loans charged off prior to emergence from bankruptcy and loans charged off prior to classification as held for sale. Unlike recoveries on loans charged off after our restructuring, these recoveries are recorded as other income, not as a reduction to the provision for loan losses. The decrease from the prior years reflected a general downward trend of recoveries of loans charged off pre-emergence as the Company moves further away from its emergence date. Recoveries of loans charged off prior to transfer to held for sale were higher in 2011 as Corporate Finance moved a pool of predominantly non-accrual loans to held for sale on which there was subsequent recovery activity.

Counterparty receivable accretion relates to the FSA accretion of a fair value discount on the receivable from Goldman Sachs International (GSI) related to the GSI Facilities, which are total return swaps (as discussed in *Funding and Liquidity* and *Note 8 Long-term Borrowings* and *Note 9 Derivative Financial Instruments*). The discount is accreted into income over the expected term of the payout of the associated receivables. FSA accretion remaining on the counterparty receivable was $12 million at December 31, 2013.

Gains on investments primarily reflected sales of equity investments that were received as part of a lending transaction, or in some cases, a workout situation. The gains were primarily in Corporate Finance and declined on fewer transactions.

Gains (losses) on derivatives and foreign currency exchange Transactional foreign currency movements resulted in losses of $(14) million in 2013, gains of $37 million in 2012, and losses of $(42) million in 2011. These were partially offset by gains of $20 million in 2013, losses of $(33) million in 2012, and gains of $35 million in 2011 on derivatives that economically hedge foreign currency movements and other exposures. In addition, derivative losses related to the valuation of the derivatives within the GSI facility were $(4) million for 2013 and $(6) million for 2012. In addition, there were losses of $(1) million and $(4) million in 2013 and 2012, respectively, and gains of $2 million in 2011 on the realization of cumulative translation adjustment (CTA) amounts from AOCI upon the sale or substantial liquidation of a subsidiary. For additional information on the impact of derivatives on the income statement, refer to *Note 9 Derivative Financial Instruments.*

Impairment on assets held for sale in 2013 includes $102 million of charges related to Vendor Finance, $19 million for Transportation Finance operating lease equipment (mostly aerospace related) and $3 million for Corporate Finance. Vendor Finance activity included $62 million of charges related to operating lease equipment (including $59 million for the Dell Europe portfolio) and the remaining 2013 impairment related mostly to the international platform rationalization. When a long-lived asset is classified as held for sale, depreciation expense is suspended and the asset is evaluated for impairment with any such charge recorded in other income. (See *Expenses* for related discussion on depreciation on operating lease equipment.) 2012 included $80 million of charges related to Vendor Finance Dell Europe operating lease equipment and $34 million related to Transportation Finance equipment, mostly aerospace related. The 2011 balance included $61 million of impairment charges related to Vendor Finance, $24 million related to $2.2 billion of government-guaranteed student loans and $22 million related to idle center beam railcars.

Other revenues include items that are more episodic in nature, such as gains on work-out related claims, proceeds received in excess of carrying value on non-accrual accounts held for sale, which were repaid or had another workout resolution, insurance proceeds in excess of carrying value on damaged leased equipment, and also includes income from joint ventures. The current year includes gains on workout related claims of $19 million in Corporate Finance and $13 million in Transportation Finance. The 2012 amount includes a Vendor Finance $14 million gain on a sale of a platform, related to the Dell Europe transaction. The 2011 balance includes $59 million of proceeds received in excess of carrying value on non-accrual accounts held for sale, primarily Corporate Finance loans; the comparable amounts for 2013 and 2012 were $4 million and $8 million respectively. Principal recovery on these accounts was reported in recoveries of loans charged off prior to transfer to held for sale.

EXPENSES

Other Expenses (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Depreciation on operating lease equipment	$ 573.5	$ 533.2	$ 575.1
Operating expenses:			
Compensation and benefits	$ 536.1	$ 538.7	$ 494.8
Technology	83.3	81.6	75.3
Professional fees	69.6	64.8	120.9
Provision for severance and facilities exiting activities	36.9	22.7	13.1
Net occupancy expense	35.3	36.2	39.4
Advertising and marketing	25.2	36.5	10.5
Other expenses[(1)]	198.3	137.7	142.6
Operating expenses	984.7	918.2	896.6
Loss on debt extinguishments		61.2	134.8
Total other expenses	$1,558.2	$1,512.6	$1,606.5
Headcount	3,240	3,560	3,530

(1) *The year ended December 31, 2013 included $50 million related to the Tyco tax agreement settlement charge.*

Depreciation on operating lease equipment is recognized on owned equipment over the lease term or estimated useful life of the asset. Depreciation expense is primarily driven by the Transportation Finance operating lease equipment portfolio, which includes long-lived assets such as railcars and aircraft. To a lesser extent, depreciation expense includes amounts on smaller ticket equipment, such as office equipment, leased by Vendor Finance. Certain ownership costs and also impairments recorded on equipment held in portfolio are reported as depreciation expense. Assets held for sale also impact the balance (as depreciation expense is suspended on operating lease equipment once it is transferred to assets held for sale). Depreciation expense is discussed further in *Net Finance Revenues,* as it is a component of our asset margin. See

Non-interest Income for impairment charges on operating lease equipment classified as held for sale.

Operating expenses were up 7% in 2013, driven by the Tyco International Ltd. (Tyco) tax agreement settlement charge of $50 million, discussed below in Other expenses, and costs associated with restructuring initiatives. Operating expenses also include Bank deposit raising costs, which totaled $35 million each in 2013 and 2012 and $10 million in 2011, and are reflected across various expense categories, but mostly within advertising and marketing and other, reflecting deposit insurance costs. Operating expenses reflect the following changes:

- *Compensation and benefits* were down slightly from 2012 as lower salaries and benefit costs from the reduction in employees was partially offset by higher incentive compensation, which includes the amortization of deferred compensation. Deferred compensation plans were re-instated post emergence and the costs associated with the plans are amortized over the vesting period, typically three years. Thus, 2013 included three years of amortization of deferred costs compared to two years in 2012. Similarly, the increase in 2012 was driven by higher incentive compensation expense, two years of amortization of deferred costs compared to one year in 2011, and a higher number of employees. See *Note 18 Retirement, Postretirement and Other Benefit Plans.*

- *Professional fees* includes legal and other professional fees such as tax, audit, and consulting services. The increase from 2012 primarily reflected costs associated with our international rationalization efforts, while 2012 benefited from higher amounts received on favorable legal and tax resolutions. The elevated amount in 2011 was primarily due to higher risk management consulting fees and litigation-related costs.

- *Advertising and marketing* expenses decreased in 2013 after a large increase in 2012 associated with CIT Bank. CIT Bank advertising and marketing costs associated with raising deposits totaled $15 million in 2013, $24 million in 2012, and $1 million in 2011.

- *Provision for severance and facilities exiting activities* reflects costs associated with various organization efficiency initiatives. Severance costs were $33 million of the 2013 charges and related to approximately 275 employee terminations and the associated benefits costs incurred in conjunction with the initiatives. The facility exiting activities totaled $4 million and related to exiting three locations. See *Note 25 Severance and Facility Exiting Liabilities* for additional information.

- *Other expenses* includes items such as travel and entertainment, insurance, FDIC costs, office equipment and supply costs and taxes (other than income taxes). On December 20, 2013, we reached an agreement with Tyco to settle contract claims asserted by Tyco related to a tax agreement that CIT and Tyco entered into in 2002 in connection with CIT s separation from Tyco. CIT agreed to pay Tyco $60 million, including $50 million that was recorded as an expense in 2013 and $10 million that had been previously accrued.

Operating expenses excluding restructuring charges for 2013 were 2.82% as a percentage of AEA, above the target range of 2.00% 2.50%, and includes the mentioned tax settlement charge. Operating efficiency improvements will continue in 2014 and the full benefits of the actions taken in 2013 will likely be realized later in 2014. The complexities of exiting certain countries and platforms will result in an elevated level of restructuring, legal and other related costs for another few quarters.

- We have lowered headcount by approximately 320 since a year ago to 3,240 at December 31, 2013, modified several benefit plans and consolidated some offices.

- During 2013 we began to rationalize subscale platforms. In total we plan to exit over 20 countries across Europe, South America and Asia. As a result of these decisions, we have sold several portfolios of financing and leasing assets and moved other portfolios to assets held for sale, including our small business lending portfolio in Corporate Finance.

Loss on debt extinguishments for 2012 reflect the write-off of accelerated fees and underwriting costs related to liability management actions taken, which included the repayment of the remaining Series A Notes and all of the 7% Series C Notes. The 2011 loss is primarily due to the write-off of original issue discount and fees associated with the repayment of the first lien term loan, partially offset by a modest gain from the repurchase of approximately $400 million of Series A debt at a discount in open market transactions.

FRESH START ACCOUNTING

Upon emergence from bankruptcy in 2009, CIT applied Fresh Start Accounting (FSA) in accordance with generally accepted accounting principles in the United States of America (GAAP). See *Note 1 Business and Summary of Significant Accounting Policies*.

FSA had a significant impact on our operating results in 2011 and 2012, while in 2013, the impact has significantly lessened. Net finance revenue includes the accretion of the FSA adjustments to the loans, leases and debt, as well as to depreciation and, to a lesser extent, rental income related to operating lease equipment. The most significant remaining discount of $2.3 billion relates to operating lease equipment, which in effect was an impairment of the operating lease equipment upon emergence from bankruptcy, as the assets were recorded at their fair value, which was less than their carrying value. The recording of this FSA adjustment reduced the asset balance subject to depreciation and thus decreases depreciation expense over the remaining life of the operating lease equipment.

The following table presents the remaining FSA adjustments by balance sheet caption:

Accretable Fresh Start Accounting (Discount)/Premium (dollars in millions)

	December 31, 2013	December 31, 2012	December 31, 2011
Loans	$ (35.0)	$ (355.3)	$ (621.8)
Operating lease equipment, net	(2,276.9)	(2,550.6)	(2,803.1)
Intangible assets, net	20.3	31.9	63.6
Other assets	(11.6)	(20.8)	(117.1)
Total assets	$(2,303.2)	$(2,894.8)	$(3,478.4)
Deposits	$ (0.8)	$ 3.5	$ 14.5
Long-term borrowings	(283.6)	(369.4)	(2,018.9)
Other liabilities		1.7	25.7
Total liabilities	$ (284.4)	$ (364.2)	$(1,978.7)

As discussed in *Net Finance Revenue*, interest income was increased by the FSA accretion on loans. The decline in the balance from last year resulted from the transfer of student loans to AHFS (which caused the remaining $184 million accretable discount to be netted against the carrying value of those assets). The remaining balance at December 31, 2013 mostly related to Corporate Finance loans and is expected to be accreted into income within the next 2 years. In addition to the yield related accretion on loans, the decline in accretable balance has been accelerated, primarily as a result of asset sales and prepayments.

As discussed in *Net Finance Revenue*, interest expense was increased by the accretion of the FSA discounts on long-term borrowings. We repaid debt prior to its contractual maturity, and the repayments were accounted for as a debt extinguishment, which accelerated the accretion of the FSA discount on the underlying debt. At December 31, 2013, long-term borrowings included $271 million of remaining FSA discount on secured borrowings, consisting of $231 million secured by student loans and $40 million secured by transportation equipment. Upon sale of the student loans that are in AHFS at December 31, 2013, the

associated secured borrowings will be paid down and the FSA discount will be accelerated. Based on market conditions subsequent to year-end, we currently believe that we will realize a net gain on the sale of the student loans. The net gain to be recognized on the sale of the student loans will consist primarily of (1) the gain on the sale of the loans (which are carried net of a discount of $184 million) and any proceeds received for the sale of the servicing of those loans and (2) the expense to be recognized based on the acceleration of the debt FSA ($231 million) upon the extinguishment of the related debt.

Depreciation expense is reduced by the lower carrying value of operating lease equipment subject to depreciation due to the operating lease equipment discount, essentially all of which is related to Transportation Finance aircraft and rail operating lease assets. We estimated an economic average life before disposal of these assets of approximately 15 years for aerospace assets and 30 years for rail assets. FSA accretion amounts are disclosed in *Net Finance Revenue* section.

An intangible asset was recorded to adjust operating lease rents that were, in aggregate, above then current market rental rates. These adjustments (net) will be amortized, thereby lowering rental income (a component of Non-interest Income) over the remaining term of the lease agreements on a straight line basis. The majority of the remaining accretion has a contractual maturity of less than two years.

Other assets relates primarily to a discount on receivables from GSI in conjunction with the GSI Facilities. The discount is accreted into other income as *'counterparty receivable accretion* over the expected payout of the associated receivables. The accretion is discussed in *Non-interest Income* and the GSI Facilities are discussed in *Funding and Liquidity and* also in *Note 8 Long-term Borrowings*, and *Note 9 Derivative Financial Instruments* in *Item 8 Financial Statements and Supplementary Data*.

INCOME TAXES

Income Tax Data (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Provision for income taxes, before discrete items	$63.0	$ 93.3	$139.4
Discrete items	29.5	40.5	19.2
Provision for income taxes	$92.5	$133.8	$158.6
Effective tax rate	11.9%	(29.4)%	89.0%

The Company s 2013 tax provision is $92.5 million as compared to $133.8 million in 2012 and $158.6 million in 2011. The current year tax provision reflects income tax expense on the earnings of certain international operations and state income tax expense in the U.S. The decrease from the prior years tax provisions primarily reflect a reduction in foreign income tax expense driven by lower international earnings, and changes in discrete tax expense. Included in the 2013 tax provision is approximately $30 million of net discrete tax expense that primarily relates to the establishment of valuation allowances against certain international net deferred tax assets due to our international platform rationalizations, and deferred tax expense due to sale of a leverage lease. The discrete tax expense items were partially offset by incremental tax benefits associated with favorable settlements of prior year international tax audits.

The 2012 provision of $93.3 million before discrete items reflects income tax expense on the earnings of certain international operations and state income tax expense in the U.S. The discrete items of $40.5 million includes incremental taxes associated with international audit settlements and an increase in a U.S. deferred tax liability on certain indefinite life assets that cannot be used as a source of future taxable income in the assessment of the domestic valuation allowance. Also, included in 2012 was a discrete tax benefit of $146.5 million caused by a release of tax reserves established on an uncertain tax position taken on certain tax losses following a favorable ruling from the tax authorities and a $98.4 million tax benefit associated with a tax position taken on a prior-year restructuring transaction. Both of these benefits were fully offset by corresponding increases to the domestic valuation allowance.

The 2011 tax provision of $139.4 million before discrete items was primarily related to income tax expense on the earnings of certain international operations and no income tax benefit on its domestic losses. The discrete items of $19.2 million includes an increase to an uncertain federal and state tax position that the Company has taken with respect to the recognition of certain losses, offset by a reduction in the domestic valuation allowance. Also, the Company recorded deferred tax expense of $12.2 million of foreign withholding taxes consequent to a change in the Company s assertion regarding the indefinite reinvestment of its unremitted foreign earnings.

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

The Company has not recognized any tax benefit on its prior year domestic losses and certain prior year foreign losses due to uncertainties related to its ability to realize its net deferred tax assets in the future. Due to the future uncertainties, combined with the recent three years of cumulative losses by certain domestic and foreign reporting entities, the Company has concluded that it does not currently meet the criteria to recognize its net deferred tax assets, inclusive of the deferred tax assets related to NOLs in these entities. Accordingly, the Company maintained valuation allowances of $1.5 billion and $1.6 billion against their net deferred tax assets at December 31, 2013 and 2012, respectively. Of the $1.5 billion valuation allowance at December 31, 2013, approximately $1.3 billion relates to domestic reporting entities and $211 million relates to the foreign reporting entities.

Management s decision to maintain the valuation allowances on certain reporting entities net deferred tax assets requires significant judgment and an analysis of all the positive and negative evidence regarding the likelihood that these future benefits will be realized. The most recent three years of cumulative losses, adjusted for any non-recurring items, was considered a significant negative factor supporting the need for a valuation allowance. At the point when any of these reporting entities transition into a cumulative three year 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, tax planning strategies, and the carry-forward periods for the NOLs.

While certain foreign and domestic 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. Given the continued improvement in earnings in certain foreign and domestic reporting entities, which is one factor considered in the evaluation process, it is possible that the valuation allowance for those entities may be reduced if these trends continue and other factors do not outweigh this positive evidence.

At the point a determination is made that it is more likely than not that a reporting entity generates sufficient future taxable income to realize its respective net deferred tax assets, the Company will reduce the entity s respective valuation allowance (in full or in part), resulting in an income tax benefit in the period such a determination is made. Subsequently, the provision for income taxes will be provided for future earnings; however, there will be a minimal impact on cash taxes paid for until the NOL carry-forward is fully utilized.

See *Note 17 Income Taxes* for additional information.

RESULTS BY BUSINESS SEGMENT

Although higher on a GAAP basis, pre-tax income was down from 2012 when excluding debt redemption charges, primarily reflecting lower gains on asset sales in Corporate Finance, and lower results in Vendor Finance. Financing and leasing assets were up from both 2012 and 2011 in three of the commercial segments, while Trade Finance was down slightly.

See *Note 23 Business Segment Information* for additional details.

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

Impacts of FSA Accretion and Debt Redemption Charges on Pre-tax Income (Loss) by Segment (dollars in millions)

	Year Ended December 31, 2013	
	Consumer	Total

	Corporate Finance	Transportation Finance	Trade Finance	Vendor Finance		Corporate & Other	
	Year Ended December 31, 2013						
Income (loss) before (provision) benefit for income taxes	$183.8	$ 600.4	$55.6	$ 23.3	$ 31.0	$(120.0)	$ 774.1
Accelerated FSA net discount/(premium) on debt extinguishments and repurchases	14.0	14.5	1.1	4.0	1.0	1.1	35.7
Accelerated OID on debt extinguishments related to the GSI facility	(5.2)						(5.2)
Pre-tax income (loss) excluding debt redemptions and OID acceleration	$192.6	$ 614.9	$56.7	$ 27.3	$ 32.0	$(118.9)	$ 804.6
	Year Ended December 31, 2012						
Income (loss) before (provision) benefit for income taxes	$200.2	$(122.7)	$ 4.1	$(107.9)	$ (52.0)	$(376.5)	$ (454.8)
Accelerated FSA net discount/(premium) on debt extinguishments and repurchases	222.2	647.1	46.4	198.2	156.0	181.0	1,450.9
Debt related loss on debt extinguishments						61.2	61.2
Accelerated OID on debt extinguishments related to the GSI facility		(6.9)			(45.7)		(52.6)
Pre-tax income (loss) excluding debt redemptions and OID acceleration	$422.4	$ 517.5	$50.5	$ 90.3	$ 58.3	$(134.3)	$1,004.7
	Year Ended December 31, 2011						
Income (loss) before (provision) benefit for income taxes	$368.3	$ 190.2	$16.9	$ 144.8	$ (90.6)	$(451.2)	$ 178.4
Accelerated FSA net discount/(premium) on debt extinguishments and repurchases	43.3	78.9	8.2	36.0	93.3	19.5	279.2
Debt related loss on debt extinguishments						134.8	134.8
Debt related prepayment costs						114.2	114.2
Pre-tax income (loss) excluding debt redemptions	$411.6	$ 269.1	$25.1	$ 180.8	$ 2.7	$(182.7)	$ 706.6

Corporate Finance

Corporate Finance provides a range of financing options and offers advisory services to small and medium size companies in the U.S. and Canada and has a specialized lending unit focused on financial sponsors in Europe. Corporate Finance core products include asset-based and cash flow lending, fee-based products (e.g., financial advisory, M&A), equipment leasing and financing, and commercial real estate financing. Corporate Finance offers a product suite primarily composed of senior secured loans collateralized by accounts receivable, inventory, machinery

& equipment and intangibles to finance various needs of our customers, such as working capital, plant expansion, acquisitions and recapitalizations. These loans include revolving lines of credit and term loans and, depending on the nature and quality of the collateral, may be referred to as asset-based loans or cash flow loans. The middle market lending business provides financing to customers in a wide range of industries (including Commercial & Industrial, Communications, Media & Entertainment, Healthcare, and Energy). Revenue is generated primarily from interest earned on loans, supplemented by fees collected for services provided.

Corporate Finance Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Earnings Summary			
Interest income	$ 525.1	$ 623.6	$ 923.7
Interest expense	(244.6)	(564.6)	(706.1)
Provision for credit losses	(19.0)	(7.3)	(173.3)
Rental income on operating leases	18.0	8.9	18.0
Other income	147.8	387.9	546.5
Depreciation on operating lease equipment	(10.3)	(4.3)	(7.8)
Operating expenses	(233.2)	(244.0)	(232.7)
Income before provision for income taxes	$ 183.8	$ 200.2	$ 368.3
Pre-tax income excluding debt redemption charges and accelerated OID on debt extinguishment related to the GSI facility[(1)]	$ 192.6	$ 422.4	$ 411.6
Select Average Balances			
Average finance receivables (AFR)	$9,038.6	$7,510.3	$7,225.9
Average earning assets (AEA)	9,317.8	7,617.2	7,538.7
Statistical Data			
Net finance margin (interest and rental income, net of interest and depreciation expense as a % of AEA)	3.09%	0.83%	3.02%
Funded new business volume	$4,633.3	$4,377.0	$2,702.6

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

Pre-tax earnings included accelerated debt FSA accretion and OID accretion of $9 million in 2013, compared to $222 million in 2012 and $43 million in 2011, which reduced profitability. Excluding accelerated debt FSA accretion and OID accretion, pre-tax income was down from 2012 and 2011 as higher assets and lower funding costs were offset by significantly lower other income and lower FSA net accretion. The lower provision for credit losses in 2013 and 2012 reflect credit metrics that were at cyclical lows.

Asset growth was driven by continued annual increases in new business volumes. New business volume grew 6% from 2012, which was significantly higher than 2011. Newer initiatives such as commercial real estate lending and equipment financing continued to contribute to growth. CIT Bank originated the vast majority of the U.S. funded volume in each of the periods presented. At December 31, 2013, approximately 80% of this segment s financing and leasing assets were in the Bank. We also look for opportunities to supplement volume with portfolio purchases. In early 2013 we purchased approximately $720 million of corporate loans.

The market remains competitive in our middle market lending business. During 2013, pricing seemed to have stabilized in the core middle market lending business, but at relatively lower yields then 2012. In addition, competitive pressures have shifted transactions more to higher leverage than lower pricing. During 2012, new business yields were relatively stable within product types, whereas in 2011, new business yields were up modestly on average.

Highlights included:

- Net finance revenue (NFR) was $288 million for 2013, up from 2012 and 2011. Because of the significant impact accelerated debt repayments had on prior periods, a more meaningful measure is to exclude the accelerated accretion.

- Excluding accelerated debt FSA and OID accretion, NFR was $297 million, up modestly from $286 million in 2012 and $271 million in 2011. NFR benefited from increasing assets and lower funding costs in 2013 and 2012, partially offset by a declining impact of FSA net accretion and lower yields in certain loan products. The accelerated debt FSA and OID accretion caused NFM in 2012 to be significantly below 2013. FSA and OID accretion had minimal net impact to NFR in 2013 in comparison to prior years. Net FSA accretion, excluding the accelerated FSA and OID accretion, increased NFR by $17 million in 2013, $93 million in 2012 and $148 million in 2011.

- Other income was down from the prior years reflecting the following:

  - Lower gains on asset sales (including receivables, equipment and investments), which totaled $35 million, down from $217 million in 2012 and $278 million in 2011. Contributing to the decline was a lower amount of assets sold, $354 million of equipment and receivable sales in 2013, down from $717 million in 2012 and $913 million in 2011.

  - Higher fee revenue of $62 million in 2013, reflected improvement in capital market transactions, up from $47 million in 2012 and $53 million in 2011. Fee revenue includes servicing fees related to the small business lending portfolio and capital markets fees. Fee revenue generated for servicing the small business lending portfolio, which totaled $11 million in 2013, will no longer be earned upon the sale of that portfolio in 2014.

  - Lower recoveries of loans charged off pre-emergence and loans charged off prior to transfer to assets held for sale, which totaled $13 million in 2013, down from $34 million in 2012 and $86 million in 2011. As we move further away from our emergence date, both recoveries and FSA counterparty receivable accretion are expected to continue to decline, but future recoveries could be elevated if specific workouts occur.

  - Lower FSA-related counterparty receivable accretion, which totaled $7 million, down from $74 million in 2012 and $85 million in 2011. The remaining balance is not significant at December 31, 2013.

  - The current year also includes gains on workout related claims of $19 million.

- Credit trends remained stable in 2013. Non-accrual loans declined to $127 million (1.34% of finance receivables), from $212 million (2.59%) at December 31, 2012 and $498 million (7.26%) at December 31, 2011. Net charge-offs were $27 million (0.30% of average finance receivables) in 2013, down from $32 million (0.43%) and down significantly from $206 million (2.85%) in 2011. The current year included $28 million of charge-offs related to the transfer of loans to assets held for sale.

- Financing and leasing assets totaled $10.0 billion, up from $8.3 billion at December 31, 2012 and $7.1 billion at December 31, 2011, driven primarily by new business volume, and to a lesser extent, the remaining balance from the approximately $720 million corporate loan portfolio purchase early in 2013. Cash flow loans approximated 44% of the portfolio, while asset secured loans approximated 51%, and the remaining portfolio consisted primarily of SBA loans. In October 2013, we entered into a definitive agreement to sell our small business lending portfolio, which represented the majority of the assets held for sale at December 31, 2013. The sale is expected to be completed in 2014, subject to approval by the Small Business Administration.

Transportation Finance

Transportation Finance is among the leading providers of large ticket equipment leases and other secured financing in the aerospace and rail sectors. The principal asset within the Transportation Finance portfolio is leased equipment, whereby we invest in equipment (primarily commercial aircraft and railcars) and lease it to commercial end-users, primarily operating leases. Transportation Finance clients primarily consist of global commercial airlines, and North American major railroads and material transport companies (including mining and agricultural firms). This business also provides secured lending and other financing products to companies in the transportation and defense industries, offers financing and leasing programs for corporate and private owners of business jet aircraft, and provides secured lending in the maritime sector. Revenue is generated from rents collected on leased assets, and to a lesser extent from interest on loans, fees, and gains from assets sold.

Transportation Finance Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Earnings Summary			
Interest income	$ 145.9	$ 135.2	$ 155.9
Interest expense	(510.4)	(1,233.5)	(885.2)
Provision for credit losses	1.0	(18.0)	(12.8)
Rental income on operating leases	1,546.9	1,536.6	1,375.6
Other income	77.0	56.3	99.1
Depreciation on operating lease equipment	(459.4)	(419.7)	(382.2)
Operating expenses	(200.6)	(179.6)	(160.2)
Income (loss) before (provision) benefit for income taxes	$ 600.4	$ (122.7)	$ 190.2
Pre-tax income excluding debt redemption charges and accelerated OID on debt extinguishment related to the GSI facility[(1)]	$ 614.9	$ 517.5	$ 269.1
Select Average Balances			
Average finance receivables (AFR)	$ 1,977.5	$ 1,706.4	$ 1,378.3
Average operating leases (AOL)	12,187.9	11,843.5	10,850.2
Average earning assets (AEA)	14,324.7	13,760.7	12,341.0
Statistical Data			
Net finance margin (interest and rental income, net of interest and depreciation expense as a % of AEA)	5.05%	0.14%	2.14%
Operating lease margin as a % of AOL	8.92%	9.43%	9.16%
Funded new business volume	$ 2,937.5	$ 2,216.3	$ 2,523.6

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

Pre-tax earnings were impacted by accelerated debt FSA and OID accretion, which resulted from debt prepayment activities, of $15 million in 2013, $640 million in 2012 and $79 million in 2011. Excluding accelerated debt FSA and OID accretion, pre-tax income increased from 2012 and 2011. Results continued to reflect high utilization rates of our aircraft and railcars, increased asset levels and lower funding costs with rail lease renewals generally re-pricing higher and commercial air renewal rates re-pricing down on average.

We grew financing and leasing assets during 2013, further expanding our aircraft and railcar fleets, building our business air, transportation lending and maritime finance portfolios. We also continued to proactively manage our equipment fleets in 2013, selling over $800 million of equipment and ordering 23 additional aircraft and approximately 4,800 railcars.Assets in the Bank grew to $3.0 billion, including over $1.1 billion of railcars. As discussed in *Note 28 Subsequent Events,* on January 31, 2014, CIT acquired Paris-based Nacco SAS (Nacco), an independent full service railcar lessor in Europe. Leasing assets acquired totaled approximately $650 million, including more than 9,500 railcars.

Highlights included:

- Net finance revenue (NFR) was $723 million, up from 2012 and 2011. Because of the significant impact accelerated debt repayments had on prior periods, a more meaningful measure is to exclude the accelerated accretion. Excluding accelerated debt FSA and OID accretion, NFR was $738 million, up from $658 million in 2012 and $344 million in 2011. The increases from 2012 and 2011 largely reflect lower funding costs and higher assets. Net FSA accretion, excluding the accelerated debt FSA and OID accretion, increased NFR by $191 million in 2013, $128 million in 2012 and $79 million in 2011. Remaining net FSA accretion benefits, which will decline over time, are primarily recorded in depreciation expense.

- Net operating lease revenue (rental income on operating leases less depreciation on operating lease equipment), which is a component of NFR, was down modestly from 2012. The decline reflected pressure on renewal rents on certain aircraft, and higher depreciation, reflecting adjustments to residual balances and higher assets. These offset improvements in rail portfolio lease rates, the net benefit from higher asset balances and continued strong utilization. The decline in operating lease margin reflected these trends, whereby the growth in assets was offset by pressures on certain lease renewal rents. We expect to re-lease approximately 50 commercial aircraft in 2014, a level that is significantly higher than in recent years and will likely put pressure on the finance margin in 2014 if lease rates for certain aircraft remain at current levels. We expect lease expirations for rail equipment in 2014 will represent slightly over 20% of the rail portfolio, a level that is lower than recent experience.

- Financing and leasing assets grew to $15.1 billion from $14.2 billion in 2012 and $13.3 billion in 2011, with new business volume partially offset by equipment sales, depreciation and other activity.

- New business volume for 2013 included the delivery of 24 aircraft and approximately 5,400 railcars and funding of approximately $1.1 billion of new loans. All of the 2013 loan volume, and the vast majority of the rail operating lease volume, was originated by the Bank. New business volume for 2012 reflected the addition of 21 operating lease aircraft and approximately 7,000 railcars, and also included over $600 million of finance receivables. 2011 new business volume included 20 aircraft purchased from our order book and over 2,800 railcars.

- At December 31, 2013, we had 147 aircraft on order from manufacturers (down from 161 at December 31, 2012), with deliveries scheduled through 2020. All of the 20 scheduled aircraft deliveries for 2014 have lease commitments. We had future purchase commitments for approximately 7,500 railcars, with scheduled deliveries through 2015. All of the approximately 4,600 scheduled railcar deliveries for 2014 have lease commitments. See *Note 19 Commitments*.

  Equipment utilization remained strong throughout 2013 and ended the year with over 99% of commercial air and 98% of rail equipment on lease or under a commitment. Rail utilization rates were up from 2012 and 2011, while air utilization remained consistently strong over the 3-year period.

- Other income primarily reflected the following:

  - Gains on asset sales totaled $78 million on $907 million of equipment and receivable sales, compared to $66 million of gains on $732 million of asset sales in 2012 and $81 million of gains on $511 million of asset sales in 2011.

  - Impairment on operating lease equipment held for sale totaled $19 million in 2013 and $34 million in 2012, mostly related to commercial aircraft and $24 million in 2011, primarily related to idle center-beam railcars that were scrapped.

  - FSA accretion on counterparty receivable totaled $1 million, $15 million and $17 million for the years ended December 31, 2013, 2012 and 2011, respectively. The remaining balance is not significant at December 31, 2013.

  - Other income for 2013 included $13 million related to a work-out related claim. 2011 included $14 million related to an aircraft insurance claim and $11 million related to a change in the aircraft order book and corresponding acceleration of FSA.

- Operating expenses were up about 12% in both 2013 and 2012, primarily reflecting investments in new initiatives and growth in existing businesses.

- Non-accrual loans were $14 million (0.66% of finance receivables) at December 31, 2013, down from $40 million (2.18%) at December 31, 2012 and $45 million (3.03%) at December 31, 2011. Net charge-offs were $3 million (0.13% of average finance receivables) in 2013, down from $12 million (0.69%) and $7 million (0.47%) in 2012 and 2011, respectively. The provision for credit losses reflected the improved credit quality in 2013, and increased during 2012 reflecting higher loan volumes and the establishment of specific reserves.

Trade Finance

Trade Finance provides factoring, receivable management products, and secured financing to businesses (our clients, generally manufacturers or importers of goods) that operate in several industries, including apparel, textile, furniture, home furnishings and consumer electronics. Factoring entails the factor s assumption of credit risk with respect to trade accounts receivable arising from the sale of goods by our clients to their customers (generally retailers), which have been factored (i.e. sold or assigned to the factor). Although primarily U.S.-based, Trade Finance also conducts business with clients and their customers internationally. Revenue is principally generated from commissions earned on factoring and related activities, interest on loans, and other fees for services rendered.

Trade Finance Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Earnings Summary			
Interest income	$ 54.9	$ 57.6	$ 73.3
Interest expense	(26.2)	(80.0)	(90.9)
Provision for credit losses	4.4	0.9	(11.2)
Other income, commissions	122.3	126.5	132.5
Other income, excluding commissions	15.9	17.5	23.6
Operating expenses	(115.7)	(118.4)	(110.4)
Income before provision for income taxes	$ 55.6	$ 4.1	$ 16.9
Pre-tax income excluding debt redemption charges[1]	$ 56.7	$ 50.5	$ 25.1
Select Average Balances			
Average finance receivables (AFR)	$ 2,358.2	$ 2,356.6	$ 2,486.5
Average earning assets (AEA)[2]	1,003.7	1,087.9	1,383.9
Statistical Data			
Net finance margin (interest income net of interest expense as a % of AEA)	2.86%	(2.06)%	(1.27)%
Factoring volume	$25,712.2	$25,123.9	$25,943.9

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

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

Pre-tax income was impacted by accelerated debt FSA accretion of $1 million in 2013, compared to $46 million in 2012 and $8 million in 2011, as debt prepayment activities lessened. Excluding accelerated FSA interest expense, pre-tax earnings were up in 2013 reflecting improved funding costs and net recoveries in the provision for credit losses.

Highlights included:

- Net finance revenue (NFR) was $29 million, up from 2012 and 2011. Net finance revenue excluding accelerated debt FSA accretion was $30 million in 2013, improved from $24 million in 2012 and $(9) million in 2011. The improvements from the prior years reflected lower funding costs, and compared to 2011, lower non-accrual loans.

- Factoring commissions have trended lower reflecting the underlying portfolio product mix, which also offset the modest increase in factoring volume in 2013 compared to 2012.

- Other income included $1 million, $5 million and $9 million of recoveries on accounts charged off pre-emergence for the years ended December 31, 2013, 2012 and 2011, respectively.

- Non-accrual loans remained low throughout 2013 and ended at $4 million (0.19% of finance receivables) at December 31, 2013, down from $6 million (0.26%) at December 31, 2012 and $75 million (3.10%) at December 31, 2011, primarily due to accounts returning to accrual status and reductions in exposures. There were net recoveries in 2013 of $3 million, compared to net charge-offs of $1 million in 2012 and $10 million in 2011. The provision for credit losses improved during 2013 and 2012 due to decreased client charge-offs.

- Finance receivables were $2.3 billion, essentially unchanged from both December 31, 2012 and 2011. Off-balance sheet exposures, resulting from clients with deferred purchase factoring agreements, were $1.8 billion at December 31, 2013 and $1.8 billion at December 31, 2012 and 2011.

Vendor Finance

Vendor Finance develops financing solutions for small businesses and middle market companies for the procurement of equipment and value-added services. We create tailored equipment financing and leasing programs for manufacturers, distributors and product resellers across industries, such as information technology, telecom and office equipment, which are designed to help them increase sales. Through these programs, we provide equipment financing and value-added services, from invoicing to asset disposition, to meet their customers needs. Vendor Finance earns revenues from interest on loans, rents on leases, and fees and other revenue from leasing activities.

Vendor Finance Financial Data and Metrics (dollars in millions)

	Years Ended December 31,		
	2013	**2012**	**2011**
Earnings Summary			
Interest income	$ 509.0	$ 553.5	$ 788.4
Interest expense	(219.4)	(473.6)	(505.1)
Provision for credit losses	(51.3)	(26.5)	(69.3)
Rental income on operating leases	205.4	239.1	273.9
Other income	11.3	27.6	154.8
Depreciation on operating lease equipment	(103.8)	(109.2)	(185.1)
Operating expenses	(327.9)	(318.8)	(312.8)
Income (loss) before (provision) benefit for income taxes	$ 23.3	$ (107.9)	$ 144.8
Pre-tax income excluding debt redemption charges[1]	$ 27.3	$ 90.3	$ 180.8
Select Average Balances			
Average finance receivables (AFR)	$4,869.0	$4,540.3	$4,492.0
Average operating leases (AOL)	214.5	208.8	325.8

	Years Ended December 31,		
Average earning assets (AEA)	5,471.6	5,136.0	5,391.8
Statistical Data			
Net finance margin (interest and rental income, net of interest and depreciation expense as a % of AEA)	7.15%	4.08%	6.90%
Funded new business volume	$2,965.1	$3,006.9	$2,577.5

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