CIT GROUP INC
Form 10-Q
May 10, 2011
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
*Washington, D.C. 20549*

**FORM 10-Q**

| | | | |
|---|---|---|---|
| \|X\| | Quarterly Report Pursuant to Section 13 or 15(d) or of the Securities Exchange Act of 1934 | \|_\| | Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 |

*For the quarterly period ended March 31, 2011*
*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 Number) |
| **11 West 42nd Street New York, New York** | **10017** |
| (Address of Registrant s principal executive offices) | (Zip Code) |

**(212) 461-5200**
(Registrant s telephone number)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

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

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

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

As of April 29, 2011 there were 200,523,962 shares of the registrant s common stock outstanding.

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Part One Financial Information:



Part Two Other Information:

Part One Financial Information

**ITEM 1. Consolidated Financial Statements**

CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS (unaudited)** (dollars in millions except per share data)

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 786.7 | $ 734.1 |
| Interest bearing deposits, including restricted balances of $1,343.7 at March 31, 2011 and $2,553.8 at December 31, 2010(1) | 4,900.1 | 10,469.9 |
| Investment securities | 6,416.9 | 328.5 |
| Trading assets at fair value - derivatives | 13.9 | 25.7 |
| Assets held for sale(1) | 1,174.4 | 1,218.5 |
| Loans (see Note 5 for amounts pledged) | 23,736.7 | 24,500.5 |
| Allowance for loan losses | (402.5) | (416.2) |
| Total loans, net of allowance for loan losses(1) | 23,334.2 | 24,084.3 |
| Operating lease equipment, net (see Note 5 for amounts pledged)(1) | 11,040.2 | 11,136.7 |
| Unsecured counterparty receivable | 516.1 | 534.5 |
| Goodwill | 277.4 | 277.4 |
| Intangible assets, net | 99.1 | 119.2 |
| Other assets | 2,116.2 | 2,029.4 |
| **Total Assets** | **$ 50,675.2** | **$ 50,958.2** |
| **Liabilities** | | |
| Deposits | $ 4,294.6 | $ 4,536.2 |
| Trading liabilities at fair value - derivatives | 205.4 | 126.3 |
| Credit balances of factoring clients | 1,110.7 | 935.3 |
| Other liabilities | 2,383.9 | 2,466.9 |
| Long-term borrowings, including $4,689.8 and $3,686.3 contractually due within twelve months at March 31, 2011 and December 31, 2010, respectively | 33,686.6 | 33,979.8 |
| **Total Liabilities** | **41,681.2** | **42,044.5** |
| **Stockholders Equity** | | |
| Common stock: $0.01 par value, 600,000,000 authorized | | |
| Issued: 200,767,267 at March 31, 2011 and 200,690,938 at December 31, 2010 | 2.0 | 2.0 |
| Outstanding: 200,518,457 at March 31, 2011 and 200,463,197 at December 31, 2010 | | |
| Paid-in capital | 8,440.4 | 8,434.1 |
| Retained earnings | 563.9 | 498.3 |

| | | |
|---|---|---|
| Accumulated other comprehensive loss | (4.1) | (9.6) |
| Treasury stock: 248,810 shares at March 31, 2011 and 227,741 at December 31, 2010, at cost | (9.9) | (8.8) |
| **Total Common Stockholders' Equity** | **8,992.3** | **8,916.0** |
| Noncontrolling minority interests | 1.7 | (2.3) |
| **Total Equity** | **8,994.0** | **8,913.7** |
| **Total Liabilities and Equity** | **$ 50,675.2** | **$ 50,958.2** |

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

| | | |
|---|---|---|
| **Assets** | | |
| Interest bearing deposits, restricted | $ 919.5 | $ 931.2 |
| Assets held for sale | 40.3 | 100.0 |
| Total loans, net of allowance for loan losses | 11,817.7 | 12,041.5 |
| Operating lease equipment, net | 2,870.8 | 2,900.0 |
| **Total Assets** | **$ 15,648.3** | **$ 15,972.7** |
| **Liabilities** | | |
| Beneficial interests issued by consolidated VIEs (classified as long-term borrowings) | $ 10,116.4 | $ 10,764.7 |
| **Total Liabilities** | **$ 10,116.4** | **$ 10,764.7** |

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

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CIT GROUP INC. AND SUBSIDIARIES

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

| | Quarters Ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| *Interest income* | | **As Restated[(1)]** |
| Interest and fees on loans | $ 635.5 | $ 1,097.4 |
| Interest and dividends on investments | 7.7 | 7.3 |
| Interest income | 643.2 | 1,104.7 |
| *Interest expense* | | |
| Interest on long-term borrowings | (674.5) | (810.6) |
| Interest on deposits | (24.4) | (20.8) |
| Interest expense | (698.9) | (831.4) |
| Net interest revenue | (55.7) | 273.3 |
| Provision for credit losses | (123.4) | (226.1) |
| Net interest revenue, after credit provision | (179.1) | 47.2 |
| *Other income* | | |
| Rental income on operating leases | 413.3 | 425.8 |
| Other | 278.2 | 150.4 |
| Total other income | 691.5 | 576.2 |
| **Total revenue, net of interest expense and credit provision** | **512.4** | **623.4** |
| *Other expenses* | | |
| Depreciation on operating lease equipment | (160.5) | (172.7) |
| Operating expenses | (216.4) | (261.7) |
| Total other expenses | (376.9) | (434.4) |
| Income before provision for income taxes | 135.5 | 189.0 |
| Provision for income taxes | (65.7) | (43.4) |
| Net income before attribution of noncontrolling interests | 69.8 | 145.6 |
| Net income attributable to noncontrolling interests, after tax | (4.2) | (1.0) |
| **Net income** | **$ 65.6** | **$ 144.6** |

| | | | | |
|---|---|---|---|---|
| **Basic earnings per common share** | $ | 0.33 | $ | 0.72 |
| **Diluted earnings per common share** | $ | 0.33 | $ | 0.72 |
| | | | | |
| Average number of common shares - basic (thousands) | | 200,605 | | 200,040 |
| Average number of common shares - diluted (thousands) | | 200,933 | | 200,076 |

*(1) These restated balances were disclosed in Note 26 of the Company s Form 10-K for the year ended December 31, 2010.*

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

CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (unaudited)** (dollars in millions)

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income / (Loss) | Treasury Stock | Noncontrolling Interest in Subsidiaries | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|
| **December 31, 2010** | $ 2.0 | $ 8,434.1 | $ 498.3 | $ (9.6) | $ (8.8) | $ (2.3) | $ 8,913.7 |
| Net income | | | 65.6 | | | 4.2 | 69.8 |
| Foreign currency translation adjustments | | | | 6.8 | | | 6.8 |
| Change in fair values of derivatives qualifying as cash flow hedges | | | | 0.9 | | | 0.9 |
| Unrealized gain on available for sale equity investments, net | | | | (2.1) | | | (2.1) |
| Minimum pension liability adjustment | | | | (0.1) | | | (0.1) |
| **Total comprehensive income** | | | | | | | 75.3 |
| Restricted stock and stock option expenses | | 6.3 | | | (1.1) | | 5.2 |
| Equity distribution | | | | | | (0.2) | (0.2) |
| **March 31, 2011** | $ 2.0 | $ 8,440.4 | $ 563.9 | $ (4.1) | $ (9.9) | $ 1.7 | $ 8,994.0 |
| **December 31, 2009** | $ 2.0 | $ 8,398.0 | $ | $ | $ | $ 1.4 | $ 8,401.4 |
| Adoption of new accounting pronouncement | | | (18.4) | | | (8.4) | (26.8) |
| Net income | | | 144.6 | | | 1.0 | 145.6 |
| Foreign currency translation adjustments | | | | 35.6 | | | 35.6 |
| Change in fair values of derivatives qualifying as cash flow hedges | | | | (0.3) | | | (0.3) |
| Unrealized gain on available for sale equity investments, net | | | | (0.1) | | | (0.1) |
| Total comprehensive income | | | | | | | 180.8 |
| Restricted stock and stock option expenses | | 5.8 | | | (0.1) | | 5.7 |
| Equity distribution | | | | | | (0.1) | (0.1) |
| **March 31, 2010**(1) | $ 2.0 | $ 8,403.8 | $ 126.2 | $ 35.2 | $ (0.1) | $ (6.1) | $ 8,561.0 |

*(1) These restated balances were disclosed in Note 26 of the Company s Form 10-K for the year ended December 31, 2010.*

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

CIT GROUP INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)** (dollars in millions)

| | Quarters Ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| | | **As Restated[1]** |
| **Cash Flows From Operations** | | |
| Net income | $ 65.6 | $ 144.6 |
| Adjustments to reconcile net income to net cash flows from operations: | | |
| Provision for credit losses | 123.4 | 226.1 |
| Net depreciation, amortization and (accretion) | 111.5 | (236.0) |
| Net gains on equipment, receivable and investment sales | (134.9) | (63.5) |
| Provision for deferred income taxes | 21.3 | 16.3 |
| (Increase) decrease in finance receivables held for sale | (0.7) | 7.0 |
| Increase in other assets | (44.9) | (140.2) |
| (Decrease) increase in accrued liabilities and payables | (18.1) | 164.3 |
| Net cash flows provided by operations | 123.2 | 118.6 |
| **Cash Flows From Investing Activities** | | |
| Loans extended and purchased | (4,652.2) | (4,209.5) |
| Principal collections of loans and investments | 5,371.7 | 6,627.1 |
| Purchases of investment securities | (6,125.5) | |
| Proceeds from asset and receivable sales | 860.6 | 389.4 |
| Purchases of assets to be leased and other equipment | (328.4) | (284.7) |
| Net (increase) decrease in short-term factoring receivables | (73.3) | 154.8 |
| Change in restricted cash | 1,210.1 | (528.7) |
| Net cash flows (used in) provided by investing activities | (3,737.0) | 2,148.4 |
| **Cash Flows From Financing Activities** | | |
| Proceeds from the issuance of term debt | 2,354.5 | 1,056.2 |
| Repayments of term debt | (2,838.9) | (3,269.4) |
| Net decrease in deposits | (233.6) | (365.1) |
| Net repayments of non-recourse leveraged lease debt | (5.5) | (8.6) |
| Collection of security deposits and maintenance funds | 125.8 | 189.7 |
| Repayment of security deposits and maintenance funds | (95.6) | (187.8) |
| Net cash flows used in financing activities | (693.3) | (2,585.0) |
| Decrease in cash and cash equivalents | (4,307.1) | (318.0) |
| Unrestricted cash and cash equivalents, beginning of period | 8,650.2 | 8,405.2 |
| **Unrestricted cash and cash equivalents, end of period** | **$ 4,343.1** | **$ 8,087.2** |

| | | | | |
|---|---|---|---|---|
| **Supplementary Cash Flow Disclosure** | | | | |
| Interest paid | $ | 524.2 | $ | 732.7 |
| Federal, foreign, state and local income taxes paid (collected), net | $ | 6.7 | $ | (6.2) |
| **Supplementary Non Cash Flow Disclosure** | | | | |
| Net transfer of finance receivables from held for investment to held for sale | $ | 395.2 | $ | 1,058.0 |

*(1) These restated balances were disclosed in Note 26 of the Company s Form 10-K for the year ended December 31, 2010.*

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

**NOTE 1 BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

CIT Group Inc. became a bank holding company ( BHC ) in 2008 and has provided financial solutions to its clients since its formation in 1908. We provide financing and leasing capital principally for small businesses and 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. CIT is the parent of CIT Bank, a state-chartered bank in Utah. We operate primarily in North America, with locations in Europe, Latin America and Asia.

**BASIS OF PRESENTATION**

**Principles of Consolidation**

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

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

The consolidated financial statements include the effects of adopting Fresh Start Accounting ( FSA ) upon emergence from bankruptcy on December 10, 2009, as required by GAAP. Accretion and amortization of certain FSA adjustments began on January 1, 2010 and are included in the Statements of Operations and Cash Flows. See the Company s Annual Report on Form 10-K for the year ended December 31, 2010 ( Form 10-K ), Notes 1 and 25, for additional FSA and reorganization information.

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

**Restatement**

The March 31, 2010 amounts have been restated to correct for errors found by the Company subsequent to the filing of its third quarter 2010 report on Form 10-Q related primarily to the application of FSA, the effects of which were disclosed in the Company s December 31, 2010 Form 10-K. The effect of the restatement increased net income for the quarter ended March 31, 2010 by approximately $47 million to $144.6 million, as compared to the amount originally reported in the March 31, 2010 Form 10-Q. Comparisons to the 2010 first quarter balances are to the restated amounts. See the Company s December 31, 2010 Form 10-K, Note 26 Selected Quarterly Financial Data (Unaudited), for further information.

**SIGNIFICANT ACCOUNTING POLICIES**

**Investments**

Investment securities are classified and accounted for as follows:

- Debt and equity securities classified as available-for-sale (AFS) are carried at fair value with changes in fair value reported in accumulated other comprehensive income, net of applicable income taxes. Credit- related declines in fair value that are determined to be other than temporary are recorded in earnings immediately. Realized gains and losses on sales are included in *Other income* on a specific identification cost basis, and interest and dividend income on AFS securities is included in *Interest and dividends on investments*.
- Debt securities classified as held-to-maturity represent securities that the Company has both the ability and the intent to hold until maturity, and are carried at amortized cost. For those securities that the Company does not intend to sell or expect to be required to sell, credit-related impairment is recognized in earnings, with the non-credit related impairment recorded in Accumulated Other Comprehensive Income ( AOCI ). Interest on such securities is included in *Interest and dividends on investments*.
- Equity investments without readily determinable fair values are carried at cost and periodically assessed for other-than-temporary impairment, with the cost basis reduced when impairment is deemed to be other-than-temporary.

**NEW ACCOUNTING PRONOUNCEMENTS**

**Fair Value Measurements and Disclosures**

In January 2010, FASB issued Accounting Standards Update ( ASU ) 2010-06, Fair Value Measurements and Disclosures (Topic 820). This update enhances disclosures about (1) different classes of assets and liabilities measured at fair value, (2) valuation techniques and inputs used, (3) transfers between Levels 1, 2, and 3, and (4) activity in Level 3 fair value measurements. Disclosure of activity in Level 3 fair value measurements is effective for fiscal years and interim periods beginning after December 15, 2010. This guidance was adopted and did not have a material impact on the Company s financial statement disclosures.

**Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses**

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses, which provides guidance that requires enhanced disclosures surrounding the credit characteristics of the Company s loan portfolio. Under the new guidance, the Company is required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications.

The Company adopted the required disclosures of this guidance in its Form 10-K, *Notes 1, 2* and *3*, which included enhanced qualitative accounting policies and quantitative disclosures on segment and class levels as well as credit characteristics. The new disclosures on the roll forward of the allowance for credit losses is effective for the first quarter 2011 Form 10-Q and is disclosed in Note 3. The adoption of this guidance affects CIT s disclosures of loans and allowance for loan losses, but does not affect its financial condition or results of operations. The new disclosures relating to loan modifications, including troubled debt restructurings in accordance with ASU 2011-02, A Creditor's

Determination of Whether a Restructuring Is a Troubled Debt Restructuring, were deferred until reporting periods beginning after June 15, 2011.

**Goodwill Impairment Test**

In December 2010, FASB issued ASU 2010-28, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. Under ASC Topic 350, goodwill is tested for impairment at the reporting unit level utilizing a two-step approach. Step 1 compares the fair value of a reporting unit to its carrying value and if there is a shortfall, then Step 2 is completed. Step 2 measures the amount of impairment. This update requires that the Step 2 test be performed if the reporting unit has zero or negative carrying amount and qualitative factors exist indicating that it is more likely than not that a goodwill impairment exists. No additional disclosures are required by this update. This update is effective for public companies beginning after December 15, 2010. At the date of adoption, a cumulative-effect adjustment to beginning retained earnings should be recorded if impairment of any reporting unit exists. The adoption of the guidance did not have a material impact on the Consolidated Balance Sheets or Statements of Operations.

## NOTE 2 LOANS

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

(dollars in millions)

| | March 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | **Domestic** | **Foreign** | **Total** | **Domestic** | **Foreign** | **Total** |
| Corporate Finance | $ 5,951.1 | $ 1,945.0 | $ 7,896.1 | $ 6,482.4 | $ 1,999.8 | $ 8,482.2 |
| Transportation Finance | 1,026.5 | 256.1 | 1,282.6 | 1,098.8 | 290.1 | 1,388.9 |
| Trade Finance | 2,487.6 | 135.0 | 2,622.6 | 2,207.7 | 179.7 | 2,387.4 |
| Vendor Finance | 2,470.7 | 1,565.8 | 4,036.5 | 2,582.9 | 1,583.2 | 4,166.1 |
| Consumer | 7,881.6 | 17.3 | 7,898.9 | 8,058.8 | 17.1 | 8,075.9 |
| Total | $ 19,817.5 | $ 3,919.2 | $ 23,736.7 | $ 20,430.6 | $ 4,069.9 | $ 24,500.5 |

The following table presents selected information related to components of the net investment in finance leases, which are included in total finance receivables:

(dollars in millions)

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| Unearned income | $ (1,262.1) | $ (1,356.3) |
| Net unamortized deferred fees and costs | 25.8 | 16.0 |
| Total finance leases | 4,347.9 | 4,522.1 |

Certain of the following tables present credit-related information at the class level in accordance with ASU 2010-20, Disclosures about the Credit Quality of Finance Receivables and the Allowance for Credit Losses. A class is generally a disaggregation of a portfolio segment. In determining the classes, CIT considered the finance receivable characteristics and methods it applies in monitoring and assessing credit risk and performance.

*Credit Quality Information*

The following table summarizes finance receivables by the risk ratings that bank regulatory agencies utilize to classify credit exposure and which are consistent with indicators the Company monitors. Risk ratings are reviewed on a regular and ongoing basis by Credit Risk Management and are adjusted as necessary for updated information affecting borrowers ability to fulfill their obligations. Loans rated as substandard and doubtful are considered classified loans. Classified loans plus special mention loans are considered criticized loans.

The definitions of these ratings are as follows:

- Pass finance receivables in this category do not meet the criteria for classification in one of the categories below.
- Special mention a special mention asset exhibits potential weaknesses that deserve management s close attention. If left uncorrected, these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects.
- Substandard a substandard asset is inadequately protected by the current sound worth and paying capacity of the borrower, and is characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected.
- Doubtful a doubtful asset has weaknesses that make collection or liquidation in full unlikely on the basis of current facts, conditions, and values.

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Substantially all of the Doubtful accounts were on non-accrual status at March 31, 2011 and December 31, 2010, and approximately one-quarter and one-third, respectively, of the Substandard accounts were on non-accrual status as of those dates.

(dollars in millions)

| | Corporate Finance - Other | Corporate Finance- SBL | Transportation Finance | Trade Finance | Vendor Finance US | Vendor Finance International | Total Commercial | Total Consumer | Totals(1) |
|---|---|---|---|---|---|---|---|---|---|
| **At March 31, 2011** | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | $ 4,705.9 | $ 343.0 | $ 617.7 | $ 2,210.6 | $ 2,110.2 | $ 1,857.5 | $ 11,844.9 | $ 6,955.5 | $ 18,800.4 |
| Special mention | 1,074.9 | 172.6 | 301.2 | 225.9 | 140.4 | 179.6 | 2,094.6 | 494.4 | 2,589.0 |
| Substandard | 1,002.1 | 196.0 | 351.1 | 162.5 | 164.7 | 131.4 | 2,007.8 | 451.0 | 2,458.8 |
| Doubtful | 397.3 | 172.6 | 29.8 | 23.6 | 51.0 | 61.1 | 735.4 | 1.5 | 736.9 |
| Total | $ 7,180.2 | $ 884.2 | $ 1,299.8 | $ 2,622.6 | $ 2,466.3 | $ 2,229.6 | $ 16,682.7 | $ 7,902.4 | $ 24,585.1 |
| Non-accrual loans | $ 809.5 | $ 194.6 | $ 62.1 | $ 98.0 | $ 71.5 | $ 69.4 | $ 1,305.1 | $ 0.9 | $ 1,306.0 |
| **At December 31, 2010** | | | | | | | | | |
| Grade: | | | | | | | | | |
| Pass | $ 4,843.4 | $ 360.9 | $ 652.3 | $ 1,977.9 | $ 2,198.5 | $ 1,867.9 | $ 11,900.9 | $ 7,348.4 | $ 19,249.2 |
| Special mention | 1,275.6 | 161.0 | 540.8 | 244.3 | 142.5 | 193.1 | 2,557.3 | 358.2 | 2,915.6 |
| Substandard | 1,205.1 | 211.8 | 192.4 | 123.0 | 180.7 | 135.4 | 2,048.4 | 614.4 | 2,662.8 |
| Doubtful | 460.0 | 183.6 | 3.4 | 42.2 | 55.4 | 60.8 | 805.4 | 1.6 | 807.0 |
| Total | $ 7,784.1 | $ 917.3 | $ 1,388.9 | $ 2,387.4 | $ 2,577.1 | $ 2,257.2 | $ 17,312.0 | $ 8,322.6 | $ 25,634.6 |
| Non-accrual loans | $ 1,025.4 | $ 214.4 | $ 63.2 | $ 164.4 | $ 80.2 | $ 67.7 | $ 1,615.3 | $ 0.7 | $ 1,616.0 |

*(1) Balances include $848.4 million and $1,134.1 million of loans in Assets Held for Sale at March 31, 2011 and December 31, 2010,respectively, which are measured at the lower of cost or fair value. ASU 2010-20 does not require inclusion of these finance receivables in the disclosures above. Until they are disposed of, the Company manages the credit risk and collections of finance receivables held for sale consistently with its finance receivables held for investment, so that Company data are tracked and used for management purposes on an aggregated basis, as presented above.*

*Past Due and Non-accrual Loans*

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

**Finance Receivables Delinquency Status** (dollars in millions)

| | 30 59 Days Past Due | 60 89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Finance Receivables(1) |
|---|---|---|---|---|---|---|
| **At March 31, 2011** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Commercial | | | | | | |
| Corporate Finance - Other | $ 15.2 | $ 9.2 | $ 112.0 | $ 136.4 | $ 7,043.8 | $ 7,180.2 |
| Corporate Finance - SBL | 18.8 | 6.6 | 47.3 | 72.7 | 811.5 | 884.2 |
| Transportation Finance | 7.9 | 2.9 | 2.5 | 13.3 | 1,286.5 | 1,299.8 |
| Trade Finance | 27.7 | 1.4 | 3.0 | 32.1 | 2,590.5 | 2,622.6 |
| Vendor Finance US | 46.9 | 17.9 | 18.4 | 83.2 | 2,383.1 | 2,466.3 |
| Vendor Finance International | 20.1 | 8.2 | 11.2 | 39.5 | 2,190.1 | 2,229.6 |
| Consumer | 332.6 | 160.9 | 449.5 | 943.0 | 6,959.4 | 7,902.4 |
| Total | $ 469.2 | $ 207.1 | $ 643.9 | $ 1,320.2 | $ 23,264.9 | $ 24,585.1 |
| **At December 31, 2010** | | | | | | |
| Commercial | | | | | | |
| Corporate Finance - Other | $ 43.2 | $ 33.7 | $ 149.2 | $ 226.1 | $ 7,558.0 | $ 7,784.1 |
| Corporate Finance -SBL | 21.8 | 8.6 | 73.0 | 103.4 | 813.9 | 917.3 |
| Transportation Finance | 9.0 | 1.8 | 0.6 | 11.4 | 1,377.5 | 1,388.9 |
| Trade Finance | 35.0 | 1.8 | 1.3 | 38.1 | 2,349.3 | 2,387.4 |
| Vendor Finance US | 59.4 | 23.2 | 20.3 | 102.9 | 2,474.2 | 2,577.1 |
| Vendor Finance International | 20.2 | 11.5 | 10.6 | 42.3 | 2,214.9 | 2,257.2 |
| Consumer | 351.4 | 175.9 | 434.1 | 961.4 | 7,361.2 | 8,322.6 |
| Total | $ 540.0 | $ 256.5 | $ 689.1 | $ 1,485.6 | $ 24,149.0 | $ 25,634.6 |

*(1) Balances include $848.4 million and $1,134.1 million of loans in Assets Held for Sale at March 31, 2011 and December 30, 2010, respectively.*

CIT GROUP AND SUBSIDIARIES    NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

| | March 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | **Held for Investment** | **Held for Sale** | **Total** | **Held for Investment** | **Held for Sale** | **Total** |
| Commercial | | | | | | |
| Corporate Finance - Other | $ 701.3 | $ 108.2 | $ 809.5 | $ 969.3 | $ 56.1 | $ 1,025.4 |
| Corporate Finance - SBL | 170.9 | 23.7 | 194.6 | 214.4 | | 214.4 |
| Transportation Finance | 62.1 | | 62.1 | 63.2 | | 63.2 |
| Trade Finance | 98.0 | | 98.0 | 164.4 | | 164.4 |
| Vendor Finance - US | 71.5 | | 71.5 | 80.2 | | 80.2 |
| Vendor Finance - International | 36.4 | 33.0 | 69.4 | 40.4 | 27.3 | 67.7 |
| Consumer | 0.9 | | 0.9 | 0.4 | 0.3 | 0 .7 |
| Total non-accrual loans | $ 1,141.1 | $ 164.9 | $ 1,306.0 | $ 1,532.3 | $ 83.7 | $ 1,616.0 |
| Repossessed assets | | | 17.7 | | | 21.1 |
| Total non-performing assets | | | $ 1,323.7 | | | $ 1,637.1 |
| Government guaranteed accruing loans past due 90 days or more | | | $ 449.2 | | | $ 433.6 |
| Other accruing loans past due 90 days or more | | | 4.5 | | | 1.7 |
| Total accruing loans past due 90 days or more | | | $ 453.7 | | | $ 435.3 |

Payments received on non-accrual financing receivables are generally applied against outstanding principal.

*Impaired Loans*

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

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

**Impaired Loans At or for the Quarter Ended March 31, 2011** (dollars in millions)

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| **With no related allowance recorded:** | | | | |
| Commercial | | | | |
| Corporate Finance - Other | $ 240.4 | $ 392.4 | $ | $ 237.9 |
| Corporate Finance - SBL | 32.9 | 44.7 | | 41.8 |
| Transportation Finance | 8.6 | 10.4 | | 9.8 |
| Trade Finance | 84.4 | 118.3 | | 107.9 |
| Vendor Finance US | 16.9 | 27.1 | | 21.7 |
| Vendor Finance International | 15.4 | 33.5 | | 15.5 |
| **With an allowance recorded:** | | | | |
| Commercial | | | | |
| Corporate Finance - Other | 115.8 | 139.4 | 43.8 | 132.3 |
| Corporate Finance - SBL | 48.2 | 52.2 | 13.1 | 50.1 |
| Transportation Finance | 53.4 | 59.2 | 11.7 | 54.9 |
| Trade Finance | 19.1 | 25.1 | 4.8 | 23.1 |
| Total Commercial | $ 635.1 | $ 902.3 | $ 73.4 | $ 695.0 |

**Impaired Loans for the quarter ended March 31, 2010**

Average Recorded Investment $206.4

| **At December 31, 2010**(1) | **Recorded Investment**(1) | **Unpaid Principal Balance**(1) | **Related Allowance** |
|---|---|---|---|
| **With no related allowance recorded:** | | | |
| Commercial | | | |
| Corporate Finance Other | $ 235.3 | $ 377.5 | $ |
| Corporate Finance SBL | 50.7 | 72.2 | |
| Transportation Finance | 11.0 | 12.8 | |
| Trade Finance | 131.5 | 150.0 | |
| Vendor Finance US | 26.5 | 51.5 | |
| Vendor Finance International | 15.7 | 38.6 | |
| **With an allowance recorded:** | | | |
| Commercial | | | |
| Corporate Finance Other | 148.8 | 161.8 | 43.3 |
| Corporate Finance SBL | 51.9 | 54.5 | 12.7 |
| Transportation Finance | 56.4 | 57.6 | 10.0 |
| Trade Finance | 27.1 | 31.1 | 5.3 |
| Total Commercial | $ 754.9 | $ 1,007.6 | $ 71.3 |

*(1) December 31, 2010 balances were adjusted to exclude $81.2 million of recorded net investment and $161.1 million of unpaid principal related to loans classified in Assets Held for Sale.*

Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable. A specific allowance is recorded for the shortfall. In instances where the estimated value exceeds the recorded investment, no specific allowance is recorded. The estimated value is determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract s effective interest rate. The following summarizes key elements of the Company s policy regarding the determination of collateral fair value in the measurement of impairment:

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

The Company periodically modifies the terms of loans / finance receivables in response to borrowers difficulties. Modifications that include a financial concession to the borrower are accounted for as troubled debt restructurings (TDRs). The net investment of TDRs at March 31, 2011 and December 31, 2010 were $404.0 million and $461.7 million, of which 96% and 95% were on non-accrual. Corporate Finance receivables accounted for 71% and 73% of the total TDRs. At March 31, 2011 and December 31, 2010, there were $17.4 million and $19.6 million, respectively, of commitments to lend additional funds to borrowers whose loan terms have been modified in troubled debt restructurings.

*Loans and Debt Securities Acquired with Deteriorated Credit Quality*

For purposes of this presentation, finance receivables that were identified as impaired at the Convenience Date are presented separately below. The Company is applying the income recognition and disclosure guidance in ASC 310-30 (Loans and Debt Securities Acquired with Deteriorated Credit Quality) to loans considered impaired in FSA at the time of emergence. The Company has no other loans reported under this guidance.

| | March 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| (dollars in millions) | Carrying Amount | Outstanding balance(1) | Related Allowance | Carrying Amount | Outstanding balance(1) | Related Allowance |
| Commercial | $ 556.0 | $ 1,598.4 | $ 23.5 | $ 795.6 | $ 1,914.6 | $ 54.9 |
| Consumer | 1.5 | 13.1 | | 1.5 | 14.3 | |
| Totals | $ 557.5 | $ 1,611.5 | $ 23.5 | $ 797.1 | $ 1,928.9 | $ 54.9 |

| | Quarter Ended March 31, 2011 | | Quarter Ended March 31, 2010 | |
|---|---|---|---|---|
| | Provision for Credit Losses | Net Charge-offs | Provision for Credit Losses | Net Charge-offs |
| Commercial | $ 70.4 | $ 101.8 | $ 53.5 | $ 47.8 |
| Consumer | 0.8 | 0.8 | 1.7 | 1.7 |
| Totals | $ 71.2 | $ 102.6 | $ 55.2 | $ 49.5 |

*(1) Represents the sum of contractual principal, interest and fees earned at the reporting date, aggregated as pre-FSA net investment grossed up for inception to date of charge-offs.*

The following table presents the changes to the accretable discount related to all loans accounted for under ASC 310-30 (loans acquired with deteriorated credit quality).

**Accretable discount activity for loans accounted for under ASC 310-30 at Emergence Date** (dollars in millions):

| | Quarter Ended March 31, 2011 |
|---|---|
| Accretable discount, beginning of period | $ 207.2 |
| Accretion | (12.3) |
| Disposals/transfers | (27.4) |

| | |
|---|---|
| Accretable discount, end of period | $ 167.5 |

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3 ALLOWANCE FOR LOAN LOSSES

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

**Allowance for Loan Losses and Recorded Investment in Finance Receivables**
**As of or for the Quarters Ended March 31,** (dollars in millions)

| | 2011 | | | | | | | 2010 |
|---|---|---|---|---|---|---|---|---|
| | Corporate Finance | Transportation Finance | Trade Finance | Vendor Finance | Total Commercial | Consumer | Total | Total |
| **Allowance for loan losses:** | | | | | | | | |
| Beginning balance | $ 303.7 | $ 23.7 | $ 29.9 | $ 58.9 | $ 416.2 | $ | $ 416.2 | $ |
| Provision for credit losses | 74.5 | 1.8 | 3.3 | 42.9 | 122.5 | 0.9 | 123.4 | 226.1 |
| Change relating to new accounting pronouncement[1] | | | | | | | | 68.6 |
| Changes relating to sales, foreign currency translation, other | 2.6 | (0.1) | 0.7 | 0.3 | 3.5 | | 3.5 | (3.3) |
| Gross charge-offs[2] | (125.0) | (0.7) | (6.2) | (26.3) | (158.2) | (1.2) | (159.4) | (79.7) |
| Recoveries | 8.0 | | 1.9 | 8.6 | 18.5 | 0.3 | 18.8 | 2.2 |
| Allowance balance - end of period | $ 263.8 | $ 24.7 | $ 29.6 | $ 84.4 | $ 402.5 | $ | $ 402.5 | $ 213.9 |
| Individually evaluated for impairment | $ 56.9 | $ 11.7 | $ 4.8 | $ | $ 73.4 | $ | $ 73.4 | |
| Collectively evaluated for impairment | 185.4 | 13.0 | 24.8 | 82.4 | 305.6 | | 305.6 | |
| Loans acquired with deteriorated credit quality[3] | 21.5 | | | 2.0 | 23.5 | | 23.5 | |
| Allowance balance - end of period | $ 263.8 | $ 24.7 | $ 29.6 | $ 84.4 | $ 402.5 | $ | $ 402.5 | |
| Reserve for unfunded lending commitments[4] | $ 8.2 | $ 0.9 | $ | $ | $ 9.1 | $ | $ 9.1 | |
| **Financing receivables:** | | | | | | | | |
| Individually evaluated for impairment | $ 437.3 | $ 62.0 | $ 103.5 | $ 32.3 | $ 635.1 | $ | $ 635.1 | |
| Collectively evaluated for impairment | 6,945.8 | 1,220.5 | 2,519.1 | 3,961.3 | 14,646.7 | 7,897.4 | 22,544.1 | |
| Loans acquired with deteriorated credit quality[3] | 513.0 | 0 .1 | | 42.9 | 556.0 | 1.5 | 557.5 | |
| Ending balance | $ 7,896.1 | $ 1,282.6 | $ 2,622.6 | $ 4,036.5 | $ 15,837.8 | $ 7,898.9 | $ 23,736.7 | |
| Percent of total loans | 33.3% | 5.4% | 11.0% | 17.0% | 66.7% | 33.3% | 100.0% | |

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

*(2) Gross charge-offs include $74.9 million that were charged directly to the allowance for loan losses for the March 31, 2011 quarter, of which $69.7 million related to Corporate Finance with the remainder related to Trade Finance.*

*(3)*

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

(4) *Represents additional loan reserves for unfunded lending commitments and letters of credit recorded in Other Liabilities.*

The allowance for loan losses balance prior to emergence was eliminated in FSA. The 2010 balance reflects estimated amounts for loans originated subsequent to the Emergence Date, loans that were held in VIEs that the Company has consolidated, and incremental amounts required on loans that were on the books at the Emergence Date.

## NOTE 4 INVESTMENT SECURITIES

At the end of 2011 first quarter, the Company purchased $6,125.5 million of U.S. Treasury securities. All of the investments in U.S. Treasuries mature in 91 days or less, and the carrying value approximates fair value. The securities were purchased using $4.2 billion of unrestricted cash and $1.9 billion of restricted cash. The restricted cash utilized resided in a Cash Sweep account, for which investments in certain high-grade securities is a permitted use.

Total investment securities include debt and equity securities. Debt instruments primarily consisted of U.S. Treasuries, U.S. agency bonds and foreign government bonds while equity securities include common stock and warrants.

| **Investment Securities** (dollars in millions) | **March 31, 2011** | **December 31, 2010** |
|---|---|---|
| Debt securities available-for-sale | $ 6,125.5 | $ |
| Equity securities available-for-sale | 17.3 | 37.5 |
| Debt securities held-to-maturity(1) | 186.4 | 195.9 |
| Non-marketable equity securities carried at cost(2) | 87.7 | 95.1 |
| Total investment securities | $ 6,416.9 | $ 328.5 |

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

(2) *Non-marketable equity securities are carried at cost and primarily consist of shares issued by customers during loan work out situations or as part of an original loan investment.*

Debt securities are recorded on the Consolidated Balance Sheet as of the trade date and classified based on management s intention on the date of purchase.

**Securities Available-for-Sale**

The following table presents amortized cost and fair value of securities available-for-sale (AFS): (dollars in millions)

| | March 31, 2011 | | |
|---|---|---|---|
| | **Amortized Cost** | **Gross Unrealized Gains** | **Fair Value** |
| **Debt securities AFS** | | | |
| U.S. Treasury | $ 6,125.5 | $ | $ 6,125.5 |
| **Equity securities AFS** | 17.2 | 0.1 | 17.3 |
| **Total securities AFS** | $ 6,142.7 | $ 0.1 | $ 6,142.8 |

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. Any credit-related impairment on debt securities that the Company does not plan to sell and is not likely to be required to sell is recognized in the Consolidated Statement of Income, with the non-credit-related impairment recognized in other comprehensive income. For other impaired debt securities, the entire impairment is recognized in the Consolidated Statement of Income.

The following table presents interest and dividends on investments:

| dollars in millions | Quarter Ended March 31 | |
|---|---|---|
| | **2011** | **2010** |
| Interest | $ 7.7 | $ 5.5 |
| Dividends | | 1.8 |
| Total interest and dividends | $ 7.7 | $ 7.3 |

Gross realized investment gains for the quarter ended March 31, 2011 were $23.0 million and exclude losses from other-than-temporary impairment.

**Debt Securities Held-to-Maturity**

The carrying value and fair value of securities held-to-maturity (HTM) at March 31, 2011 and December 31, 2010 were as follows:

dollars in millions

| | Carrying value | Gross unrecognized gains | Fair value |
|---|---|---|---|
| **March 31, 2011** | | | |
| *U.S. Treasury and federal agency securities* | | | |
| U.S. Treasury | | | |
| Agency obligations | $ 112.0 | $ 0.6 | $ 112.6 |
| Total U.S. Treasury and federal agency securities | 112.0 | 0.6 | 112.6 |
| *Mortgage-backed securities* | | | |
| U.S. government and government-sponsored agency guaranteed | 54.4 | 0.2 | 54.6 |
| State and municipal | 0.4 | | 0.4 |
| Foreign government | 19.6 | | 19.6 |
| Total debt securities held-to-maturity | $ 186.4 | $ 0.8 | $ 187.2 |
| **December 31, 2010** | | | |
| *U.S. Treasury and federal agency securities* | | | |
| U.S. Treasury | | | |
| Agency obligations | $ 119.8 | $ 0.7 | $ 120.5 |
| Total U.S. Treasury and federal agency securities | 119.8 | 0.7 | 120.5 |
| *Mortgage-backed securities* | | | |
| U.S. government and government-sponsored agency guaranteed | 56.9 | 1.0 | 57.9 |
| State and municipal | 0.4 | | 0.4 |
| Foreign government | 18.8 | | 18.8 |
| Total debt securities held-to-maturity | $ 195.9 | $ 1.7 | $ 197.6 |

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

| | March 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| dollars in millions | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Mortgage-backed securities[1] | | | | |
| After 10 years[2] | $ 54.4 | $ 54.6 | $ 56.9 | $ 57.9 |
| Total | 54.4 | 54.6 | 56.9 | 57.9 |
| U.S. Treasury and federal agencies | | | | |
| After 1 but within 5 years | 112.0 | 112.6 | 119.8 | 120.5 |
| Total | 112.0 | 112.6 | 119.8 | 120.5 |
| State and municipal | | | | |
| After 1 but within 5 years | 0.2 | 0.2 | 0.2 | 0.2 |
| After 5 but within 10 years | 0.2 | 0.2 | 0.2 | 0.2 |
| Total | 0.4 | 0.4 | 0.4 | 0.4 |
| Foreign government | | | | |
| Due within 1 year | 17.1 | 17.1 | 18.8 | 18.8 |
| After 1 but within 5 years | 2.5 | 2.5 | | |
| Total | 19.6 | 19.6 | 18.8 | 18.8 |
| Total debt securities HTM | $ 186.4 | $ 187.2 | $ 195.9 | $ 197.6 |

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

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

**Other-Than-Temporary Impairments**

*Recognition and Measurement of Other-Than-Temporary Impairments (OTTI)*

OTTI amounts recognized in earnings totaled $6.1 million for the March 31, 2011 quarter, which were credit-related impairments on equity securities. There were no first quarter 2010 impairment charges. Impairment amounts in accumulated other comprehensive income were not significant at March 31, 2011 and December 31, 2010.

*Evaluating Investments for OTTI*

The Company conducts and documents periodic reviews of all securities with unrealized losses to evaluate whether the impairment is other than temporary. The Company accounts for investment impairments in accordance with ASC 320-10-35-34, *Investments Debt and Equity Securities: Recognition of an Other-Than-Temporary Impairment*. Under the guidance for debt securities, other-than-temporary impairment is recognized in earnings for debt securities that the Company has an intent to sell or that the Company believes it is more-likely-than-not that it will be required to sell prior to recovery of the amortized cost basis. For those securities that the Company does not intend to sell or expect to be required to sell, credit-related impairment is recognized in earnings, with the non-credit related impairment recorded in AOCI.

An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses that are determined to be temporary in nature are recorded, net of tax, in AOCI for AFS securities, while such losses related to HTM securities are not recorded, as these investments are carried at their amortized cost.

Amortized cost is defined as the original purchase cost, plus or minus any accretion or amortization of a purchase discount or premium. Regardless of the classification of the securities as AFS or HTM, the Company has assessed each investment for impairment. Factors considered in determining whether a loss is temporary would include:

- the length of time and the extent to which fair value has been below cost;
- the severity of the impairment;
- the cause of the impairment and the financial condition and near-term prospects of the issuer;
- activity in the market of the issuer that may indicate adverse credit conditions; and
- the Company s ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

The Company s review for impairment generally includes:

- identification and evaluation of investments that have indications of possible impairment;
- analysis of individual investments that have fair values less than amortized cost, including consideration of the length of time the investment has been in an unrealized loss position and the expected recovery period;

- discussion of evidential matter, including an evaluation of factors or triggers that could cause individual investments to qualify as having other-than-temporary impairment and those that would not support other-than-temporary impairment; and
- documentation of the results of these analyses, as required under business policies.

For equity securities, management considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to cost. Where management lacks that intent or ability, the security s decline in fair value is deemed to be other than temporary and is recorded in earnings. AFS equity securities deemed other-than-temporarily impaired are written down to fair value, with the full difference between fair value and cost recognized in earnings.

## NOTE 5    LONG-TERM BORROWINGS

The following table presents outstanding long-term borrowings.

| (dollars in millions) | March 31, 2011 | | | December 31, 2010 |
|---|---|---|---|---|
| | CIT Group Inc. | Subsidiaries | Total | Total |
| Secured borrowings | $ | $ 10,347.7 | $ 10,347.7 | $ 10,965.8 |
| First lien facility | 198.1 | 2,842.8 | 3,040.9 | 3,042.6 |
| Other debt | 85.9 | 69.5 | 155.4 | 167.7 |
| Series A Notes | 18,142.6 | | 18,142.6 | 19,037.9 |
| Series B Notes | | | | 765.8 |
| Series C Notes | 2,000.0 | | 2,000.0 | |
| Total debt | $ 20,426.6 | $ 13,260.0 | $ 33,686.6 | $ 33,979.8 |

### Secured Borrowings

Set forth below are borrowings and pledged assets primarily owned by consolidated variable interest entities. Creditors of these entities received ownership and/or security interests in the assets. These entities are intended to be bankruptcy remote so that such assets are not available to creditors of CIT or any affiliates of CIT. These transactions do not meet accounting requirements for sales treatment and are recorded as secured borrowings. Except as otherwise noted, pledged assets listed below are not included in the collateral available to lenders under the First Lien Facility or the Series A or C Notes described below.

**Secured Borrowings and Pledged Asset Summary** (dollars in millions)

| | March 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Secured Borrowing | Assets Pledged | Secured Borrowing | Assets Pledged |
| Education loan trusts and conduits (student loans) | $ 4,102.2 | $ 5,440.9 | $ 4,184.4 | $ 5,558.8 |

| | | | | |
|---|---|---|---|---|
| GSI Facility borrowings (1) | 1,300.7 | 2,089.2 | 1,624.6 | 2,349.5 |
| Vendor finance(2) | 773.4 | 989.4 | 601.4 | 808.1 |
| Equipment lease securitizations (Vendor) | 610.3 | 818.5 | 757.7 | 949.3 |
| Trade Finance | 382.2 | 1,585.5 | 504.9 | 1,479.6 |
| Corporate Finance CLO I | 467.4 | 477.6 | 467.4 | 451.2 |
| Canadian equipment receivables financing | 264.2 | 364.9 | 346.1 | 434.2 |
| Corporate finance (SBL)(2) | 280.0 | 304.8 | 258.0 | 283.6 |
| Transportation Finance Aero | 61.3 | 60.6 | 62.4 | 61.6 |
| Subtotal Finance Receivables | 8,241.7 | 12,131.4 | 8,806.9 | 12,375.9 |
| Aircraft financing(3) | 1,289.9 | 1,518.9 | 1,315.1 | 1,531.0 |
| Transportation Finance Rail | 147.6 | 140.4 | 148.9 | 146.2 |
| GSI Facility borrowings (Aero) | 500.8 | 1,113.4 | 519.8 | 1,119.3 |
| Other structures | 92.9 | 120.9 | 99.8 | 126.2 |
| Subtotal Equipment under operating leases | 2,031.2 | 2,893.6 | 2,083.6 | 2,922.7 |
| FHLB borrowings (Consumer)(4) | 74.8 | 112.0 | 75.3 | 119.8 |
| Total | $ 10,347.7 | $ 15,137.0 | $ 10,965.8 | $ 15,418.4 |

*(1) At March 31, 2011 borrowing is secured by $1.4 billion of corporate finance receivables, $0.6 billion of student loans, and $0.1 billion of small business lending loans of which $31.4 million were classified in Assets Held for sale at March 31, 2011.*

*(2) Includes repurchase of assets previously sold or securitized and the associated secured debt.*

*(3) Secured aircraft financing facility for the purchase of specified Airbus aircraft.*

*(4) Collateralized with Government Debentures and Certificates of Deposit.*

CIT GROUP AND SUBSIDIARIES    NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Variable Interest Entities**

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

The most significant types of VIEs that CIT utilizes are securitizations of pools of assets. The Company originates pools of assets and sells these to special purpose entities which, in turn, issue debt securities backed by the asset pools or sell individual interests in the assets to investors. CIT retains the servicing rights and participates in certain cash flows.

**First Lien Facility**

In August 2010, CIT amended its existing first lien credit facility agreements (the First Lien Facility ) and refinanced the remaining principal balance. The First Lien Facility has an outstanding balance of $3 billion that matures in August 2015. This facility carries an interest rate of LIBOR + 4.50% with a 1.75% LIBOR floor. The First Lien Facility is generally secured by a first lien on substantially all U.S. assets that are not otherwise pledged to secure the borrowings of special purpose entities as described below under *Other Secured Borrowings* , 65% of the voting shares and 100% of the non-voting shares of certain foreign subsidiaries and between 44% and 65% of the equity interest or capital stock in certain other non-U.S., non-regulated subsidiaries. The First Lien Facility is subject to a collateral coverage covenant (based on CIT s book value in accordance with GAAP) of 2.5x the outstanding loan balance, tested quarterly and upon certain transfers, dispositions or releases of collateral. The First Lien Facility also contains a number of additional covenants, some of which do not impose restrictions on the Company if CIT continues to maintain a collateral coverage ratio of 2.75x or greater.

**Series A and Series C Notes**

In March 2011, the Company issued $2 billion of new Series C Second-Priority Secured Notes, consisting of $1.3 billion of three-year 5.25% fixed rate notes and $700 million of seven-year 6.625% fixed rate notes. The covenants in the new Series C Notes are materially less restrictive than those in the outstanding Series A Notes, and more consistent with covenants in investment grade-rated bonds. The proceeds of the transaction were used, in conjunction with available cash, to redeem an additional $2.5 billion of 7% Series A Notes at a redemption price of 102% of the aggregate principal amount on May 2, 2011. This redemption included approximately $1.1 billion principal amount of remaining 2013 Series A Notes and approximately $1.4 billion principal amount of the 2014 Series A Notes. The acceleration of FSA amortization on the 2013 and 2014 maturities will add approximately $65 million and $50 million, respectively, to second quarter interest expense.

During the 2011 first quarter, we redeemed $1.0 billion of the 7% Series A Notes due in 2013 at a redemption price of 102% of the aggregate principal amount redeemed. The acceleration of FSA amortization on the Series A Notes was $25 million and resulted in an increase to interest expense.

The Series A Notes and Series C Notes are generally secured by second-priority security interests in all the assets securing the First Lien Facility. The Series A Notes Indentures limit the ability of the Company and the Company s restricted subsidiaries to make certain payments or investments, incur indebtedness (including guarantees), issue preferred stock, incur liens, enter into sale and leaseback transactions, pay dividends, sell assets, and enter into transactions with affiliates. The Series C Notes Indentures limit the Company s ability to create liens, merge or consolidate, or sell, transfer, lease or dispose of all or substantially all of its assets. Under the terms of the Series A Notes, the Company is required to use certain cash collections to repay the First Lien Facility and Series A Notes on an accelerated basis as part of the Cash Sweep; there is no such requirement under the Series C Notes.

The guarantees and collateral for the Series C Notes will be released upon the Series C Notes receiving an investment grade rating from each of Moody's and S&P after giving effect to the release. In addition, the guarantees and/or collateral for the Series C Notes will be automatically released if the same guarantees and/or collateral for the Series A Notes are released at the same time or if the Series A Notes have been paid off in full.

In the event of a Change of Control as defined in the Series A Indentures, holders of the Series A Notes will have the right to require the Company, as applicable, to repurchase all or a portion of the Series A Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of such repurchase.

Upon a Change of Control Triggering Event as defined in the Series C Indentures, holders of the Series C Notes will have the right to require the Company, as applicable, to repurchase all or a portion of the Series C Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of such repurchase.

**Series B Notes**

During the 2011 first quarter, we redeemed the remaining $0.75 billion of 10.25% Series B Notes at a redemption price of 102% of the aggregate principal amount redeemed. The acceleration of FSA accretion on the Series B Notes was $14 million and resulted in a decrease to interest expense.

**Summarized Financial Information of Subsidiaries**

In accordance with the Series A Notes Indenture, the following tables present two mutually exclusive sets of condensed consolidating financial statements, reflecting the following:

- The first set of condensed consolidated financial statements includes entities that are considered guarantors or non-guarantors. Guarantor entities are those that have guaranteed the unregistered debt under the First Lien Facility and Series A Notes. Non-guarantors are all other entities including those which may have pledged assets but did not guarantee the debt.
- The second set reflects both restricted and unrestricted subsidiaries. Unrestricted subsidiaries include regulated entities such as CIT Bank, joint ventures, special purpose entities and entities deemed immaterial. Restricted entities include all other subsidiaries.

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATING BALANCE SHEETS (dollars in millions)**

| | | | Non Guarantor Entities | | | |
|---|---|---|---|---|---|---|
| **March 31, 2011** | **CIT Group Inc.** | **Guarantor Entities** | **Pledged Entities** | **Other Non Guarantor Entities** | **Eliminations** | **Consolidated Total** |
| **ASSETS:** | | | | | | |
| Net loans | $ | $ 5,071.2 | $ 2,302.5 | $ 16,370.4 | $ (409.9) | $ 23,334.2 |
| Operating lease equipment, net | | 4,422.2 | 4,762.3 | 1,889.8 | (34.1) | 11,040.2 |
| Assets held for sale | | 286.4 | 411.5 | 476.5 | | 1,174.4 |
| Cash and deposits with banks | 683.0 | 888.3 | 1,229.4 | 2,946.3 | (60.2) | 5,686.8 |
| Investment securities | 4,199.9 | 2,000.6 | 6.7 | 392.9 | (183.2) | 6,416.9 |
| Other assets | 31,762.7 | 18,958.0 | 4,721.4 | 2,904.4 | (55,323.8) | 3,022.7 |
| **Total Assets** | $ 36,645.6 | $ 31,626.7 | $ 13,433.8 | $ 24,980.3 | $ (56,011.2) | $ 50,675.2 |
| **LIABILITIES AND EQUITY:** | | | | | | |
| Long-term borrowings, including deposits | $ 20,426.6 | $ 2,864.6 | $ 1,291.2 | $ 13,670.0 | $ (271.2) | $ 37,981.2 |
| Credit balances of factoring clients | | 1,310.7 | | 3.8 | (203.8) | 1,110.7 |
| Other liabilities | 7,226.7 | (1,453.1) | 4,346.1 | (7,281.9) | (248.5) | 2,589.3 |
| **Total Liabilities** | 27,653.3 | 2,722.2 | 5,637.3 | 6,391.9 | (723.5) | 41,681.2 |
| Total Stockholders Equity | 8,992.3 | 28,904.5 | 7,796.2 | 18,588.0 | (55,288.7) | 8,992.3 |
| Noncontrolling minority interests | | | 0.3 | 0.4 | 1.0 | 1.7 |
| **Total Equity** | 8,992.3 | 28,904.5 | 7,796.5 | 18,588.4 | (55,287.7) | 8,994.0 |
| **Total Liabilities and Equity** | $ 36,645.6 | $ 31,626.7 | $ 13,433.8 | $ 24,980.3 | $ (56,011.2) | $ 50,675.2 |
| **December 31, 2010(*)** | | | | | | |
| **ASSETS:** | | | | | | |
| Net loans | $ | $ 5,249.2 | $ 2,388.5 | $ 16,762.7 | $ (316.1) | $ 24,084.3 |
| Operating lease equipment, net | | 4,421.8 | 4,847.9 | 1,904.6 | (37.6) | 11,136.7 |
| Assets held for sale | | 340.2 | 293.5 | 584.8 | | 1,218.5 |
| Cash and deposits with banks | 2,725.6 | 4,404.8 | 1,176.1 | 2,936.3 | (38.8) | 11,204.0 |
| Investment securities | | 100.8 | 7.3 | 403.5 | (183.1) | 328.5 |
| Other assets | 31,047.4 | 18,524.6 | 4,598.1 | 2,816.1 | (54,000.0) | 2,986.2 |
| **Total Assets** | $ 33,773.0 | $ 33,041.4 | $ 13,311.4 | $ 25,408.0 | $ (54,575.6) | $ 50,958.2 |
| **LIABILITIES AND EQUITY:** | | | | | | |
| Long-term borrowings, including deposits | $ 19,322.0 | $ 2,866.2 | $ 2,083.0 | $ 14,497.0 | $ (252.2) | $ 38,516.0 |
| Credit balances of factoring clients | | 926.1 | | 9.2 | | 935.3 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other liabilities | 5,535.0 | 850.9 | 4,451.1 | (7,908.3) | (335.5) | 2,593.2 |
| **Total Liabilities** | 24,857.0 | 4,643.2 | 6,534.1 | 6,597.9 | (587.7) | 42,044.5 |
| Total Stockholders Equity | 8,916.0 | 28,398.2 | 6,776.9 | 18,809.8 | (53,984.9) | 8,916.0 |
| Noncontrolling minority interests | | | 0.4 | 0.3 | (3.0) | (2.3) |
| **Total Equity** | 8,916.0 | 28,398.2 | 6,777.3 | 18,810.1 | (53,987.9) | 8,913.7 |
| **Total Liabilities and Equity** | $ 33,773.0 | $ 33,041.4 | $ 13,311.4 | $ 25,408.0 | $ (54,575.6) | $ 50,958.2 |

(*) 2010 data has been conformed to the current quarter presentation.

**CONSOLIDATING STATEMENTS OF OPERATION** (dollars in millions)

| | | | Non Guarantor Entities | | | |
|---|---|---|---|---|---|---|
| | CIT Group Inc. | Guarantor Entities | Pledged Entities | Other Non Guarantor Entities | Eliminations | Consolidated Total |
| **Quarter Ended March 31, 2011** | | | | | | |
| Interest income | $ 1.1 | $ 246.6 | $ 94.8 | $ 302.6 | $ (1.9) | $ 643.2 |
| Interest expense | (451.0) | (87.6) | (59.3) | (104.9) | 3.9 | (698.9) |
| Net interest revenue | (449.9) | 159.0 | 35.5 | 197.7 | 2.0 | (55.7) |
| Provision for credit losses | (1.8) | (22.4) | (23.0) | (76.3) | 0.1 | (123.4) |
| Net interest revenue, after credit provision | (451.7) | 136.6 | 12.5 | 121.4 | 2.1 | (179.1) |
| Equity in net income of subsidiaries | 576.4 | 290.8 | 71.5 | 78.5 | (1,017.2) | |
| **Other Income** | | | | | | |
| Rental income on operating leases | | 146.2 | 175.5 | 91.6 | | 413.3 |
| Other | (119.1) | 216.4 | 49.7 | 137.7 | (6.5) | 278.2 |
| Total other income | (119.1) | 362.6 | 225.2 | 229.3 | (6.5) | 691.5 |
| Total revenue, net of interest expense and credit provision | 5.6 | 790.0 | 309.2 | 429.2 | (1,021.6) | 512.4 |
| **Other Expenses** | | | | | | |
| Depreciation on operating lease equipment | | (48.8) | (64.3) | (47.4) | | (160.5) |
| Operating expenses | (17.9) | (141.9) | (13.5) | (49.5) | 6.4 | (216.4) |
| Total other expenses | (17.9) | (190.7) | (77.8) | (96.9) | 6.4 | (376.9) |
| Income (loss) before income taxes | (12.3) | 599.3 | 231.4 | 332.3 | (1,015.2) | 135.5 |
| Benefit (provision) for income taxes | 77.8 | (43.9) | (41.9) | (57.7) | | (65.7) |
| Net income (loss) before attribution of noncontrolling interests | 65.5 | 555.4 | 189.5 | 274.6 | (1,015.2) | 69.8 |
| Net income attributable to noncontrolling interests, after tax | | | | (0.1) | (4.1) | (4.2) |
| **Net income (loss)** | $ 65.5 | $ 555.4 | $ 189.5 | $ 274.5 | $ (1,019.3) | $ 65.6 |
| **Quarter Ended March 31, 2010(*)** | | | | | | |
| Interest income | $ 0.4 | $ 509.0 | $ 165.3 | $ 443.4 | $ (13.4) | $ 1,104.7 |
| Interest expense | (462.7) | (102.0) | (139.0) | (135.0) | 7.3 | (831.4) |
| Net interest revenue | (462.3) | 407.0 | 26.3 | 308.4 | (6.1) | 273.3 |
| Provision for credit losses | 0.4 | (154.7) | (24.8) | (47.0) | | (226.1) |
| Net interest revenue, after credit provision | (461.9) | 252.3 | 1.5 | 261.4 | (6.1) | 47.2 |
| Equity in net income of subsidiaries | 442.5 | 232.2 | 35.4 | 120.1 | (830.2) | |
| **Other Income** | | | | | | |
| Rental income on operating leases | | 129.9 | 183.2 | 113.2 | (0.5) | 425.8 |
| Other | 51.8 | 84.1 | 61.7 | (44.5) | (2.7) | 150.4 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total other income | 51.8 | 214.0 | 244.9 | 68.7 | (3.2) | 576.2 |
| Total revenue, net of interest expense and credit provision | 32.4 | 698.5 | 281.8 | 450.2 | (839.5) | 623.4 |
| **Other Expenses** | | | | | | |
| Depreciation on operating lease equipment | | (47.4) | (72.9) | (52.6) | 0.2 | (172.7) |
| Operating expenses | 9.0 | (169.5) | (19.7) | (100.8) | 19.3 | (261.7) |
| Total other expenses | 9.0 | (216.9) | (92.6) | (153.4) | 19.5 | (434.4) |
| Income (loss) before income taxes | 41.4 | 481.6 | 189.2 | 296.8 | (820.0) | 189.0 |
| Benefit (provision) for income taxes | 101.9 | (77.9) | (42.0) | (25.4) | | (43.4) |
| Net income (loss) before attribution of noncontrolling interests | 143.3 | 403.7 | 147.2 | 271.4 | (820.0) | 145.6 |
| Net income attributable to noncontrolling interests, after tax | | | | 0.3 | (1.3) | (1.0) |
| **Net income (loss)** | $ 143.3 | $ 403.7 | $ 147.2 | $ 271.7 | $ (821.3) | $ 144.6 |

(*) 2010 data has been conformed to the current quarter presentation.

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS** (dollars in millions)

| | | | Non Guarantor Entities | | | |
|---|---|---|---|---|---|---|
| **Quarter Ended March 31, 2011** | **CIT Group Inc.** | **Guarantor Entities** | **Pledged Entities** | **Other Non Guarantor Entities** | **Eliminations** | **Consolidated Total** |
| **Cash Flows From Operating Activities:** | | | | | | |
| Net cash flows provided by (used for) operations | $ (573.5) | $ 276.2 | $ 15.0 | $ 405.5 | $ | $ 123.2 |
| **Cash Flows From Investing Activities:** | | | | | | |
| Net decrease in financing and leasing assets and other investing activities | (4,195.4) | (143.2) | 74.2 | 527.4 | | (3,737.0) |
| (Increase) decrease in inter-company loans and investments | 1,732.9 | | | | (1,732.9) | |
| Net cash flows (used for) provided by investing activities | (2,462.5) | (143.2) | 74.2 | 527.4 | (1,732.9) | (3,737.0) |
| **Cash Flows From Financing Activities:** | | | | | | |
| Net increase (decrease) in debt and other financing activities | 999.7 | 5.8 | (740.0) | (958.8) | | (693.3) |
| Inter-company financing | | (2,451.8) | 689.0 | 29.9 | 1,732.9 | |
| Net cash flows provided by (used for) financing activities | 999.7 | (2,446.0) | (51.0) | (928.9) | 1,732.9 | (693.3) |
| Net (decrease) increase in unrestricted cash and cash equivalents | (2,036.3) | (2,313.0) | 38.2 | 4.0 | | (4,307.1) |
| Unrestricted cash and cash equivalents, beginning of period | 2,703.6 | 2,946.4 | 1,021.1 | 1,979.1 | | 8,650.2 |
| Unrestricted cash and cash equivalents, end of period | $ 667.3 | $ 633.4 | $ 1,059.3 | $ 1,983.1 | $ | $ 4,343.1 |
| **Quarter Ended March 31, 2010(*)** | | | | | | |
| **Cash Flows From Operating Activities:** | | | | | | |
| Net cash flows provided by (used for) operations | $ 75.8 | $ 381.7 | $ 51.4 | $ (390.3) | $ | $ 118.6 |
| **Cash Flows From Investing Activities:** | | | | | | |
| Net decrease in financing and leasing assets and other investing activities | 131.4 | (591.4) | 30.9 | 2,577.5 | | 2,148.4 |

| | | | | | | |
|---|---|---|---|---|---|---|
| (Increase) decrease in inter-company loans and investments | 278.5 | | | | (278.5) | |
| Net cash flows (used for) provided by investing activities | 409.9 | (591.4) | 30.9 | 2,577.5 | (278.5) | 2,148.4 |
| **Cash Flows From Financing Activities:** | | | | | | |
| Net increase (decrease) in debt and other financing activities | (52.1) | (1,022.1) | (145.5) | (1,365.3) | | (2,585.0) |
| Inter-company financing | | 955.5 | (226.1) | (1,007.9) | 278.5 | |
| Net cash flows provided by (used for) financing activities | (52.1) | (66.6) | (371.6) | (2,373.2) | 278.5 | (2,585.0) |
| Net (decrease) increase in unrestricted cash and cash equivalents | 433.6 | (276.3) | (289.3) | (186.0) | | (318.0) |
| Unrestricted cash and cash equivalents, beginning of period | 609.3 | 4,420.6 | 808.1 | 2,567.2 | | 8,405.2 |
| Unrestricted cash and cash equivalents, end of period | $ 1,042.9 | $ 4,144.3 | $ 518.8 | $ 2,381.2 | $ | $ 8,087.2 |

**(*) 2010 data has been conformed to the current quarter presentation.**

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**CONDENSED CONSOLIDATING BALANCE SHEETS (dollars in millions)**

| March 31, 2011 | CIT Group Inc. | Restricted Entities | Unrestricted Entities | Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| **ASSETS:** | | | | | |
| Net loans | $ | $ 7,744.9 | $ 15,999.2 | $ (409.9) | $ 23,334.2 |
| Operating lease equipment, net | | 9,490.4 | 1,583.9 | (34.1) | 11,040.2 |
| Assets held for sale | | 726.0 | 448.4 | | 1,174.4 |
| Cash and deposits with banks | 683.0 | 2,528.9 | 2,535.1 | (60.2) | 5,686.8 |
| Investment securities | 4,199.9 | 2,007.3 | 392.9 | (183.2) | 6,416.9 |
| Other assets | 31,762.7 | 8,527.1 | 347.2 | (37,614.3) | 3,022.7 |
| **Total Assets** | $ 36,645.6 | $ 31,024.6 | $ 21,306.7 | $ (38,301.7) | $ 50,675.2 |
| **LIABILITIES AND EQUITY:** | | | | | |
| Long-term borrowings, including deposits | $ 20,426.6 | $ 4,155.7 | $ 13,670.1 | $ (271.2) | $ 37,981.2 |
| Credit balances of factoring clients | | 1,310.7 | 3.8 | (203.8) | 1,110.7 |
| Other liabilities | 7,226.7 | (3,394.4) | (994.5) | (248.5) | 2,589.3 |
| **Total Liabilities** | 27,653.3 | 2,072.0 | 12,679.4 | (723.5) | 41,681.2 |
| Total Stockholders Equity | 8,992.3 | 28,952.3 | 8,626.9 | (37,579.2) | 8,992.3 |
| Noncontrolling minority interests | | 0.3 | 0.4 | 1.0 | 1.7 |
| **Total Equity** | 8,992.3 | 28,952.6 | 8,627.3 | (37,578.2) | 8,994.0 |
| **Total Liabilities and Equity** | $ 36,645.6 | $ 31,024.6 | $ 21,306.7 | $ (38,301.7) | $ 50,675.2 |
| **December 31, 2010(*)** | | | | | |
| **ASSETS:** | | | | | |
| Net loans | $ | $ 8,041.4 | $ 16,359.0 | $ (316.1) | $ 24,084.3 |
| Operating lease equipment, net | | 9,605.7 | 1,568.6 | (37.6) | 11,136.7 |
| Assets held for sale | | 678.4 | 540.1 | | 1,218.5 |
| Cash and deposits with banks | 2,725.6 | 5,885.6 | 2,631.6 | (38.8) | 11,204.0 |
| Investment securities | | 108.1 | 403.5 | (183.1) | 328.5 |
| Other assets | 31,047.4 | 9,115.0 | 328.8 | (37,505.0) | 2,986.2 |
| **Total Assets** | $ 33,773.0 | $ 33,434.2 | $ 21,831.6 | $ (38,080.6) | $ 50,958.2 |
| **LIABILITIES AND EQUITY:** | | | | | |
| Long-term borrowings, including deposits | $ 19,322.0 | $ 4,949.2 | $ 14,497.0 | $ (252.2) | $ 38,516.0 |
| Credit balances of factoring clients | | 926.1 | 9.2 | | 935.3 |
| Other liabilities | 5,535.0 | (888.6) | (1,717.7) | (335.5) | 2,593.2 |

| | | | | | |
|---|---|---|---|---|---|
| **Total Liabilities** | 24,857.0 | 4,986.7 | 12,788.5 | (587.7) | 42,044.5 |
| Total Stockholders Equity | 8,916.0 | 28,447.1 | 9,042.8 | (37,489.9) | 8,916.0 |
| Noncontrolling minority interests | | 0.4 | 0.3 | (3.0) | (2.3) |
| **Total Equity** | 8,916.0 | 28,447.5 | 9,043.1 | (37,492.9) | 8,913.7 |
| **Total Liabilities and Equity** | $ 33,773.0 | $ 33,434.2 | $ 21,831.6 | $ (38,080.6) | $ 50,958.2 |

**(*) 2010 data has been conformed to the current quarter presentation.**

**CONSOLIDATING STATEMENTS OF OPERATION** (dollars in millions)

| | CIT Group Inc. | Restricted Entities | Unrestricted Entities | Eliminations | Consolidated Total |
|---|---|---|---|---|---|
| **Quarter Ended March 31, 2011** | | | | | |
| Interest income | $ 1.1 | $ 354.3 | $ 289.7 | $ (1.9) | $ 643.2 |
| Interest expense | (451.0) | (113.2) | (138.6) | 3.9 | (698.9) |
| Net interest revenue | (449.9) | 241.1 | 151.1 | 2.0 | (55.7) |
| Provision for credit losses | (1.8) | (41.4) | (80.3) | 0.1 | (123.4) |
| Net interest revenue, after credit provision | (451.7) | 199.7 | 70.8 | 2.1 | (179.1) |
| Equity in net income of subsidiaries | 576.4 | 72.2 | | (648.6) | |
| **Other Income** | | | | | |
| Rental income on operating leases | | 343.3 | 70.0 | | 413.3 |
| Other | (119.1) | 323.0 | 80.8 | (6.5) | 278.2 |
| Total other income | (119.1) | 666.3 | 150.8 | (6.5) | 691.5 |
| Total revenue, net of interest expense and credit provision | 5.6 | 938.2 | 221.6 | (653.0) | 512.4 |
| **Other Expenses** | | | | | |
| Depreciation on operating lease equipment | | (128.4) | (32.1) | | (160.5) |
| Operating expenses | (17.9) | (160.1) | (44.8) | 6.4 | (216.4) |
| Total other expenses | (17.9) | (288.5) | (76.9) | 6.4 | (376.9) |
| Income (loss) before income taxes | (12.3) | 649.7 | 144.7 | (646.6) | 135.5 |
| Benefit (provision) for income taxes | 77.8 | (96.1) | (47.4) | | (65.7) |
| Net income (loss) before attribution of noncontrolling interests | 65.5 | 553.6 | 97.3 | (646.6) | 69.8 |
| Net income attributable to noncontrolling interests, after tax | | | (0.1) | (4.1) | (4.2) |
| **Net income (loss)** | $ 65.5 | $ 553.6 | $ 97.2 | $ (650.7) | $ 65.6 |

**Quarter Ended March 31, 2010(*)**

| | | | | | |
|---|---|---|---|---|---|
| Interest income | $ 0.4 | $ 705.8 | $ 411.9 | $ (13.4) | $ 1,104.7 |
| Interest expense | (462.7) | (208.3) | (167.7) | 7.3 | (831.4) |
| Net interest revenue | (462.3) | 497.5 | 244.2 | (6.1) | 273.3 |
| Provision for credit losses | 0.4 | (185.8) | (40.7) | | (226.1) |
| Net interest revenue, after credit provision | (461.9) | 311.7 | 203.5 | (6.1) | 47.2 |
| Equity in net income of subsidiaries | 442.5 | 135.3 | 60.9 | (638.7) | |
| **Other Income** | | | | | |
| Rental income on operating leases | | 336.8 | 89.5 | (0.5) | 425.8 |
| Other | 51.8 | 113.7 | (12.4) | (2.7) | 150.4 |
| Total other income | 51.8 | 450.5 | 77.1 | (3.2) | 576.2 |
| Total revenue, net of interest expense and credit provision | 32.4 | 897.5 | 341.5 | (648.0) | 623.4 |
| **Other Expenses** | | | | | |
| Depreciation on operating lease equipment | | (136.8) | (36.1) | 0.2 | (172.7) |
| Operating expenses | 9.0 | (242.2) | (47.8) | 19.3 | (261.7) |
| Total other expenses | 9.0 | (379.0) | (83.9) | 19.5 | (434.4) |
| Income (loss) before income taxes | 41.4 | 518.5 | 257.6 | (628.5) | 189.0 |
| Benefit (provision) for income taxes | 101.9 | (113.2) | (32.1) | | (43.4) |
| Net income (loss) before attribution of noncontrolling interests | 143.3 | 405.3 | 225.5 | (628.5) | 145.6 |
| Net income attributable to noncontrolling interests, after tax | | | 0.3 | (1.3) | (1.0) |
| **Net income (loss)** | $ 143.3 | $ 405.3 | $ 225.8 | $ (629.8) | $ 144.6 |

**(*) 2010 data has been conformed to the current quarter presentation.**

## NOTE 6 DERIVATIVE FINANCIAL INSTRUMENTS

As part of managing economic risk and exposure to interest rate, foreign currency and, in limited instances, credit risk, CIT enters into derivative transactions in over-the-counter markets with other financial institutions. CIT does not enter into derivative financial instruments for speculative purposes. Derivative instruments transacted since emergence from bankruptcy are cash collateralized.

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company continues to assess hedge requirements and has reestablished counterparty relationships to facilitate hedging where economically appropriate. During 2011 and 2010, the Company s portfolio was in an asset sensitive position, whereby assets reprice faster than liabilities, and interest margin increases in a rising interest rate environment. Our hedging strategies and qualifying hedges relate primarily to currency risk management of investments in foreign operations. The Company utilizes cross-currency swaps and foreign currency forward contracts to effectively convert U.S. dollar denominated debt to a foreign currency. These transactions are classified as either foreign currency net investment hedges, or foreign currency cash flow hedges, with resulting gains and losses reflected in accumulated other comprehensive income, a separate component of equity. For hedges of foreign currency net investment positions the forward method is applied whereby effectiveness is assessed and measured based on the amounts and currencies of the individual hedged net investments versus the notional amounts and underlying currencies of the derivative contract. For those hedging relationships where the critical terms of the entire debt instrument and the derivative are identical and the credit-worthiness of the counterparty to the hedging instrument remains sound, there is an expectation of no hedge ineffectiveness so long as those conditions continue to be met. The net interest differential is recognized on an accrual basis as an adjustment to other income or as interest expense to correspond with the hedged position.

See the Company s Form 10-K Note 1 for further description of its derivative transaction policies.

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

**Fair and Notional Values of Derivative Financial Instruments** (dollars in millions)

| | March 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| **Qualifying Hedges** | **Notional Amount** | **Asset Fair Value** | **Liability Fair Value** | **Notional Amount** | **Asset Fair Value** | **Liability Fair Value** |
| Cross currency swaps | $ 426.3 | $ | $ (23.0) | $ 414.7 | $ 0.8 | $ (12.1) |
| Foreign currency forward exchange cash flow hedges | 169.7 | 0.1 | (2.4) | 183.6 | 6.4 | (1.4) |
| Foreign currency forward exchange net investment hedges | 1,489.9 | 0.1 | (93.1) | 1,333.4 | 0.5 | (61.0) |
| Total Qualifying Hedges | $ 2,085.9 | $ 0.2 | $ (118.5) | $ 1,931.7 | $ 7.7 | $ (74.5) |
| **Non-Qualifying Hedges** | | | | | | |
| Cross currency swaps | $ 1,370.7 | $ | $ (80.5) | $ 1,330.3 | $ 14.2 | $ (38.4) |
| Interest rate swaps | 978.9 | 4.0 | (30.4) | 1,046.8 | 4.5 | (37.7) |
| Written options | 79.8 | | | 273.8 | | |
| Purchased options | 979.5 | 2.5 | | 903.0 | 2.7 | |
| Foreign currency forward exchange contracts | 2,235.9 | 7.4 | (94.5) | 2,210.0 | 4.3 | (50.2) |
| TRS | 857.1 | | | 609.9 | | |
| Total Non-qualifying Hedges | $ 6,501.9 | $ 13.9 | $ (205.4) | $ 6,373.8 | $ 25.7 | $ (126.3) |

A financing facility with Goldman Sachs International (GSI) is structured as a total return swap (TRS), under which amounts available for advances are accounted for as a derivative. Estimated fair value of the derivative is based on a hypothetical transfer value, considering current market conditions and other factors.

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

**Derivative Instrument Gains and Losses** (dollars in millions)

| | | | Three Months Ended | |
|---|---|---|---|---|
| **Derivative Instruments** | | **Gain / (Loss) Recognized** | **March 31, 2011** | **March 31, 2010** |
| **Qualifying Hedges** | | | | |
| Foreign currency exchange rate fluctuations | cash flow hedges | Other income | $ (9.6) | $ |
| Total Qualifying Hedges | | | (9.6) | |
| **Non Qualifying Hedges** | | | | |
| Cross currency swaps | | Other income | (41.0) | 9.3 |
| Interest rate swaps | | Other income | 5.9 | (19.4) |
| Foreign currency forward exchange contracts | | Other income | (53.4) | 70.1 |
| Total Non-qualifying Hedges | | | (88.5) | 60.0 |
| **Total derivatives-income statement impact** | | | $ (98.1) | $ 60.0 |

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 7 FAIR VALUE**

**Fair Value Hierarchy**

The Company is required to report fair value measurements for specified classes of assets and liabilities. See Company s Form 10-K Note 1 for description of its fair value measurement policy.

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

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

| **March 31, 2011** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| **Assets** | | | | |
| Debt Securities available for sale | $ 6,125.5 | $ | $ 6,125.5 | $ |
| Equity Securities available for sale | 17.3 | 13.9 | 3.4 | |
| Trading assets at fair value - derivatives | 13.9 | | 13.9 | |
| Derivative counterparty assets at fair value | 0.2 | | 0.2 | |
| Total Assets | $ 6,156.9 | $ 13.9 | $ 6,143.0 | $ |
| **Liabilities** | | | | |
| Trading liabilities at fair value - derivatives | $ (205.4) | $ | $ (205.1) | $ (0.3) |
| Derivative counterparty liabilities at fair value | (118.5) | | (118.5) | |
| Total Liabilities | $ (323.9) | $ | $ (323.6) | $ (0.3) |
| **December 31, 2010** | | | | |
| **Assets** | | | | |
| Equity Securities available for sale | $ 37.5 | $ 16.2 | $ 3.4 | $ 17.9 |
| Trading assets at fair value - derivatives | 25.7 | | 25.7 | |
| Derivative counterparty assets at fair value | 7.7 | | 7.7 | |
| Total Assets | $ 70.9 | $ 16.2 | $ 36.8 | $ 17.9 |
| **Liabilities** | | | | |
| Trading liabilities at fair value - derivatives | $ (126.3) | $ | $ (126.0) | $ (0.3) |
| Derivative counterparty liabilities at fair value | (74.5) | | (74.5) | |
| Total Liabilities | $ (200.8) | $ | $ (200.5) | $ (0.3) |

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

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

| | | Fair Value Measurements at Reporting Date Using: | | | |
|---|---|---|---|---|---|
| **March 31, 2011** | Total | Level 1 | Level 2 | Level 3 | Total Gains and (Losses) |
| **Assets** | | | | | |
| Assets Held for Sale | $ 341.3 | $ | $ | $ 341.3 | $ (10.5) |
| Impaired loans | 310.2 | | | 310.2 | (2.7) |
| Total | $ 651.5 | $ | $ | $ 651.5 | $ (13.2) |

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

Impaired finance receivables (including loans or capital leases) of $500,000 or greater that are placed on non-accrual status are subject to periodic individual review in conjunction with the Company s ongoing problem loan management (PLM) function. Impairment occurs when, based on current information and events, it is probable that CIT will be unable to collect all amounts due according to contractual terms of the agreement. Impairment is measured as the shortfall between estimated value and recorded investment in the finance receivable, with the estimated value determined using fair value of collateral and other cash flows if the finance receivable is collateralized, or the present value of expected future cash flows discounted at the contract s effective interest rate.

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Level 3 Gains and Losses**

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

| | Total | Derivatives | Equity Securities Available for Sale |
|---|---|---|---|
| **Assets and Liabilities** | | | |
| **December 31, 2010** | $ 17.6 | $ (0.3) | $ 17.9 |
| Gains or losses realized/unrealized | | | |
| Included in other income | 5.4 | | 5.4 |
| Other, net (primarily sales proceeds) | (23.3) | | (23.3) |
| **March 31, 2011** | $ (0.3) | $ (0.3) | $ |

**FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

| | March 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| **Assets** | | | | |
| Trading assets - derivatives | $ 13.9 | $ 13.9 | $ 25.7 | $ 25.7 |
| Derivative counterparty assets at fair value | 0.2 | 0.2 | 7.7 | 7.7 |
| Assets held for sale (excluding leases)* | 189.0 | 241.2 | 466.0 | 466.0 |
| Loans (excluding leases) | 18,522.5 | 18,591.0 | 20,680.3 | 21,356.8 |
| Investment securities | 6,416.9 | 6,417.7 | 328.5 | 330.2 |
| Other assets and unsecured counterparty receivable(1) | 1,630.1 | 1,630.1 | 1,507.6 | 1,507.6 |
| **Liabilities** | | | | |
| Deposits(2) | (4,324.6) | (4,381.0) | (4,562.7) | (4,660.0) |
| Trading liabilities - derivatives | (205.4) | (205.4) | (126.3) | (126.3) |
| Derivative counterparty liabilities at fair value | (118.5) | (118.5) | (74.5) | (74.5) |
| Long-term borrowings(2) | (33,897.1) | (36,166.3) | (34,208.1) | (36,452.0) |
| Other liabilities(3) | (1,648.2) | (1,648.2) | (1,769.9) | (1,769.9) |

*(*) Prior period balances have been conformed to current period presentation.*

*(1) Other assets subject to fair value disclosure include accrued interest receivable and other receivables, certain investment securities and miscellaneous other assets whose carrying values approximate fair value.*

*(2) Deposits and long-term borrowings include accrued interest.*

*(3) Other liabilities include accrued liabilities, which have a fair value that approximates carrying value.*
Assumptions used to value financial instruments as of March 31, 2011 are unchanged from those disclosed in Note 10 of the 2010 Form 10-K.

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

*Assets held for sale* Assets held-for-sale are recorded at lower of cost or fair value on the balance sheet. The fair value is generally determined using internally generated valuations, which are considered level 3 methodologies. Commercial loans are generally valued individually, while small-ticket commercial and consumer type loans are valued on an aggregate portfolio basis.

*Loans* Since there is no liquid secondary market for most loans in the Company s portfolio, the fair value is estimated based on discounted cash flow analysis. In addition to the characteristics of the underlying contracts, key inputs to the analysis include interest rates, prepayment rates, and credit spreads. For the commercial loan portfolio, the market based credit spread inputs are derived from instruments with comparable credit risk characteristics obtained from independent third party vendors. For the consumer loan portfolio, the discount spread is derived based on the company s estimate of a market participant s required return on equity that incorporate credit loss estimates based on expected and current default rates.

*Deposits* the fair value of deposits was estimated based upon a present value discounted cash flow analysis. Discount rates used in the present value calculation are based on the Company s current rates.

*Long-term borrowings* Most fixed-rate notes were valued based on quoted market estimates. Where market estimates were not available, values were computed using a discounted cash flow analysis with a discount rate approximating current market rates for issuances by CIT of similar term debt. The difference between the carrying values of long-term borrowings reflected in the consolidated balance sheets is accrued interest payable.

## NOTE 8 STOCKHOLDERS EQUITY

### Accumulated Other Comprehensive (Loss) / Income

Total comprehensive income was $75.3 million and $180.8 million for the quarters ended March 31, 2011 and 2010, respectively, including Accumulated Other Comprehensive Income of $5.5 million and $35.2 million, respectively.

The following table details the ending component balances of Accumulated Other Comprehensive Loss, net of tax:

| (dollars in millions) | **March 31, 2011** | **December 31, 2010** |
|---|---|---|
| Changes in fair values of derivatives qualifying as cash flow hedges | $ (0.8) | $ (1.7) |
| Foreign currency translation adjustments | (6.1) | (12.9) |
| Unrealized gain on available for sale investments | 0.1 | 2.2 |
| Changes in benefit plan net gain/(loss) and prior service (cost)/credit | 2.7 | 2.8 |
| Total accumulated other comprehensive loss | $ (4.1) | $ (9.6) |

## NOTE 9 REGULATORY CAPITAL

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

Quantitative measures established by regulation to ensure capital adequacy require that the Company and CIT Bank each maintain minimum ratios of Total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets, subject to any agreement with regulators to maintain higher capital levels. In connection with becoming a bank holding company in December 2008, the Company committed to maintaining a minimum Total Risk Based Capital Ratio of 13%. In connection with converting to a Utah state bank in December 2008, CIT Bank committed to maintaining for at least three years a Tier 1 Leverage Ratio of at least 15%.

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The calculation of the Company s regulatory capital ratios are subject to review and consultation with the Federal Reserve Bank, which may result in refinements to amounts reported at March 31, 2011.

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

| | CIT Group Inc. | | CIT Bank | |
|---|---|---|---|---|
| **Tier 1 Capital** | **March 31, 2011** | **December 31, 2010** | **March 31, 2011** | **December 31, 2010** |
| Total stockholders' equity | $ 8,992.3 | $ 8,916.0 | $ 1,878.5 | $ 1,832.2 |
| Effect of certain items in accumulated other comprehensive loss excluded from Tier 1 Capital | (2.0) | (3.3) | | (0.1) |
| Adjusted total equity | 8,990.3 | 8,912.7 | 1,878.5 | 1,832.1 |
| Less: Goodwill | (277.4) | (277.4) | | |
| Disallowed intangible assets | (99.1) | (119.2) | | |
| Investment in certain subsidiaries | (34.4) | (33.4) | | |
| Other Tier 1 components[(1)] | (59.0) | (65.2) | (88.9) | (97.8) |
| **Total Tier 1 Capital** | 8,520.4 | 8,417.5 | 1,789.6 | 1,734.3 |
| **Tier 2 Capital** | | | | |
| Qualifying reserve for credit losses | 415.3 | 416.2 | 13.0 | 10.7 |
| Less: Investment in certain subsidiaries | (34.4) | (33.4) | | |
| Other Tier 2 components[(2)] | 0.2 | 0.2 | | 0.1 |
| **Total Tier 2 Capital** | 381.1 | 383.0 | 13.0 | 10.8 |
| **Total Capital (Tier 1 and Tier 2 Capital)** | $ 8,901.5 | $ 8,800.5 | $ 1,802.6 | $ 1,745.1 |
| **Risk-weighted assets** | $ 42,430.1 | $ 44,176.7 | $ 3,189.1 | $ 3,022.0 |
| **Total Capital (to risk-weighted assets):** | | | | |
| Actual | 21.0% | 19.9% | 56.5% | 57.7% |
| Required Ratio for Capital Adequacy Purposes | 13.0%[(3)] | 13.0%[(3)] | 8.0% | 8.0% |
| **Tier 1 Capital (to risk-weighted assets):** | | | | |
| Actual | 20.1% | 19.1% | 56.1% | 57.4% |
| Required Ratio for Capital Adequacy Purposes | 4.0% | 4.0% | 4.0% | 4.0% |
| **Tier 1 Capital Leverage Ratio:** | | | | |
| Actual | 17.2% | 16.2% | 25.6% | 24.2% |
| Required Ratio for Capital Adequacy Purposes | 4.0% | 4.0% | 15.0%[(3)] | 15.0%[(3)] |

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

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

(3) *The Company and CIT Bank each committed to maintaining certain capital ratios above regulatory minimum levels.*

**NOTE 10 INCOME TAXES**

CIT s tax provision of $65.7 million equated to a 48.5% effective tax rate, compared with a tax provision of $43.4 million and a 23.0% effective tax rate for the quarter ended March 31, 2010. The higher effective tax rate was primarily the result of the relative mix of domestic and international earnings. For the first quarter, the Company recorded income tax expense on the earnings of certain international operations and no income tax benefit on its domestic losses. A tax benefit was not recognized on the domestic losses because management has concluded that it does not currently meet the criteria to recognize these tax benefits considering its recent history of domestic losses.

Included in the tax provision is approximately $9 million of discrete tax expense items, primarily related to a net increase in liabilities for uncertain tax positions and incremental valuation allowances on certain foreign losses. The Company anticipates that it is reasonably possible that the total unrecognized tax benefits will decrease due to the settlement of audits and the expiration of statutes of limitation prior to March 31, 2012 in the range of $0-$10 million.

The tax provision also reflects $7.6 million of discrete tax expense items associated with the correction of certain foreign tax expense calculations relating to prior periods. Management has concluded that the adjustments were not individually or in the aggregate material to the consolidated financial statements, as of and for the period ended March 31, 2011, or to any of the preceding periods as reported.

As of December 31, 2010, CIT had cumulative U.S. Federal net operating loss carry-forwards (NOL s) of $4.0 billion. During the first quarter, the Company generated a domestic pretax loss of $412 million which, excluding FSA adjustments and certain other book-to-tax adjustments, will increase the post-emergence NOLs. Pursuant to Section 382 of the Internal Revenue Code, the Company is generally subject to a $230 million annual limitation on the use of its $1.9 billion of pre-emergence NOLs. NOLs arising in post-emergence years are not subject to this limitation.

CIT GROUP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**NOTE 11 COMMITMENTS**

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

**Commitments** (dollars in millions)

| | March 31, 2011 | | | December 31, 2010 |
|---|---|---|---|---|
| | Due to Expire | | | |
| | Within One Year | After One Year | Total Outstanding | Total Outstanding |
| **Financing Commitments** | | | | |
| Financing and leasing assets | $ 303.4 | $ 1,977.1 | $ 2,280.5 | $ 2,406.5 |
| **Letters of credit and acceptances** | | | | |
| Standby letters of credit | 53.7 | 208.8 | 262.5 | 284.7 |
| Other letters of credit | 89.0 | 32.3 | 121.3 | 99.0 |
| **Guarantees** | | | | |
| Deferred purchase credit protection agreements | 1,534.4 | | 1,534.4 | 1,667.9 |
| Guarantees, acceptances and other recourse obligations | 9.5 | 13.0 | 22.5 | 25.8 |
| **Purchase and Funding Commitments** | | | | |
| Aerospace and other manufacturer purchase commitments | 861.1 | 4,929.2 | 5,790.3 | 5,701.4 |
| **Other** | | | | |
| Liabilities for unrecognized tax benefits | 10.0 | 439.1 | 449.1 | 451.6 |

**Financing Commitments**

Financing commitments, referred to as loan commitments, or lines of credit, are agreements to lend to customers, subject to the customers compliance with contractual obligations. The table above excludes approximately $1 billion commitments at March 31, 2011 for instances where the customer is not in compliance with contractual obligations, thereby CIT does not have the contractual obligation to lend. As financing commitments are not typically fully drawn, may expire unused, be reduced or cancelled at the customer s request and require the customer to be in compliance with certain conditions, total commitment amounts do not necessarily reflect actual future cash flow requirements.

At March 31, 2011, substantially all financing commitments were senior facilities, with approximately 55% secured by equipment or other assets and the remainder comprised of cash-flow or enterprise value facilities. The vast majority of these commitments are syndicated transactions. CIT is lead agent in approximately 33% of the facilities. Most of our undrawn and available financing commitments are in Corporate Finance. The top ten undrawn commitments totaled $394 million.

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

**Letters of Credit**

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

**Deferred Purchase Agreements**

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

The methodology used to determine the DPA liability is similar to the methodology used to determine the allowance for loan losses associated with the finance receivables, which reflects embedded losses based on various factors, including expected losses reflecting our internal customer and facility credit ratings. CIT had a liability recorded in Other Liabilities related to the DPAs that totaled $3.7 million and $4.2 million at March 31, 2011 and December 31, 2010, respectively.

**Purchase and Funding Commitments**

CIT s purchase commitments relate predominantly to purchases of commercial aircraft. Commitments to purchase new commercial aircraft are primarily with Airbus Industries and The Boeing Company. Aerospace equipment purchases are contracted for specific models, using baseline aircraft specifications at fixed prices, which reflect discounts from fair market purchase prices prevailing at the time of commitment. The delivery price of an aircraft may change depending on final specifications. Equipment purchases are recorded at delivery date. Commitment amounts in the preceding table are based on contracted purchase prices less pre-delivery payments to date and exclude buyer furnished equipment selected by the lessee. Pursuant to existing contractual commitments, 106 aircraft remain to be purchased. Aircraft deliveries are scheduled periodically through 2018. Commitments exclude unexercised options to purchase aircraft.

Purchase commitments also include rail equipment. During the first quarter of 2011, the Company s rail business entered into a commitment to purchase 3,500 railcars to be delivered beginning in the 2011 second quarter through the 2012 second quarter. Rail equipment purchase commitments are at fixed prices subject to price increases for certain materials.

**NOTE 12 CONTINGENCIES**

**Litigation**

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

For certain Litigation matters in which the Company is involved, the Company is able to estimate a range of reasonably possible losses in excess of the loss amount accrued. For other matters for which a loss is probable or reasonably possible, such an estimate is not reasonably possible. For Litigation where an estimate is reasonably possible, management currently estimates the aggregate range of reasonably possible losses as up to $85 million in excess of established reserves and insurance related to those matters. This estimate represents possible losses (in excess of established reserves and other amounts referenced above) over the life of such Litigation, which may span a currently indeterminable number of years, and is based on information currently available as of March 31, 2011. The matters underlying the estimated range will change from time to time, and actual results may vary significantly from this estimate. Those Litigation matters for which an estimate is not reasonably possible or as to which a loss does not appear to be reasonably possible, based on current information, are not included within this estimated range and, therefore, this estimated range does not represent the Company s maximum loss exposure.

The Company included specific litigation proceedings in its December 31, 2010 Form 10-K. There have been no significant changes to those proceedings, except as noted below.

Snap-on Arbitration

On January 8, 2010, Snap-On Incorporated ( Snap-On ) and Snap-On Credit LLC filed a Demand for Arbitration alleging that CIT retained certain monies owed to Snap-On in connection with a joint venture with CIT which was terminated on July 16, 2009. Snap-On alleged that CIT underpaid Snap-On during the course of the joint venture, primarily related to the purchase by CIT of receivables originated and serviced by the joint venture, and sought damages of up to $100 million. On January 29, 2010, CIT filed its Answering Statement and Counterclaim. Among other things, CIT claimed that Snap-On wrongfully withheld payment on approximately $108 million due to CIT from the receivables serviced by Snap-On on behalf of CIT.

On May 5, 2011, CIT and Snap-On executed a settlement agreement fully resolving their respective claims, whereby Snap-On retained $18 million and returned the remainder of approximately $108 million to CIT. After taking into consideration applicable reserves, the settlement did not have a material impact on CIT s financial position or results of operations.

**Contractual Contingencies**

Tax Agreement

In connection with our separation from Tyco International Ltd ( Tyco ) in 2002, CIT and Tyco entered into a Tax Agreement pursuant to which, among other things, CIT agreed to pay Tyco for cash tax savings actually realized by CIT, if any, as a result of the use of certain tax attributes created while Tyco owned CIT (the Tyco Tax Attribute ), which savings would not have been realized absent the existence of the Tyco Tax Attribute. During CIT s bankruptcy, CIT rejected the Tax Agreement, and Tyco and CIT entered into a Standstill Agreement pursuant to which (a) CIT agreed that it would defer bringing its subordination claim against Tyco and (b) Tyco agreed that it would defer bringing its damages claim against CIT while the parties exchanged information about CIT s tax position, including past usage and retention of the various attributes on its consolidated tax return. The amount of the Federal Tyco Tax Attribute is approximately $794 million and the state Tyco Tax Attribute is approximately $180 million as of the separation date. CIT s approximate applicable federal and state tax rates are 35% and 6.5% (net of the federal benefit), respectively. CIT has recorded a valuation allowance against a significant portion of its federal and state deferred tax assets, as the Company continues to conclude that it does not currently meet the criteria to recognize these assets.

**NOTE 13    BUSINESS SEGMENT INFORMATION**

**Management s Policy in Identifying Reportable Segments**

CIT s reportable segments are comprised of strategic business units that are aggregated into segments primarily based upon industry categories and to a lesser extent, the core competencies relating to product origination, distribution methods, operations and servicing and the nature of their regulatory environment. This segment reporting is consistent with the presentation of financial information to management.

**Types of Products and Services**

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

**Segment Profit and Assets**

The Company refined its expense and capital allocation methodologies during the first quarter of 2011. For 2011, Corporate and other includes certain costs that had been previously allocated to the segments, including prepayment penalty fees on high-cost debt payments and certain corporate liquidity costs. In addition, the Company refined the capital and interest allocation methodologies for the segments. These changes had the most impact on Transportation Finance given the capital requirements for their forward-purchase commitments and reduced the interest expense charged to this segment. The refinement was not significant to the other segments, and therefore, 2010 balances were not conformed.

The following table presents reportable segment information and the reconciliation of segment balances to consolidated financial statements:

**Business Segments** *(dollars in millions)*

| | Corporate Finance | Transportation Finance | Trade Finance | Vendor Finance | Commercial Segments | Consumer | Total Segments | Corporate and Other | Total |
|---|---|---|---|---|---|---|---|---|---|
| **For the quarter ended March 31, 2011** | | | | | | | | | |
| Total interest income | $ 298.7 | $ 42.5 | $ 17.1 | $ 208.3 | $ 566.6 | $ 70.8 | $ 637.4 | $ 5.8 | $ 643.2 |
| Total interest expense | (196.8) | (210.5) | (25.7) | (133.0) | (566.0) | (53.0) | (619.0) | (79.9) | (698.9) |
| Provision for credit losses | (74.5) | (1.8) | (3.3) | (42.9) | (122.5) | (0.9) | (123.4) | | (123.4) |
| Rental income on operating leases | 6.5 | 324.7 | | 82.1 | 413.3 | | 413.3 | | 413.3 |
| Other income, excluding rental income | 163.8 | 24.3 | 37.1 | 31.6 | 256.8 | 3.1 | 259.9 | 18.3 | 278.2 |
| Depreciation on operating lease equipment | (2.9) | (96.7) | | (60.9) | (160.5) | | (160.5) | | (160.5) |
| Other expenses | (58.8) | (39.8) | (27.8) | (71.7) | (198.1) | (17.4) | (215.5) | (0.9) | (216.4) |
| Income (loss) before provision (benefit) for income taxes | $ 136.0 | $ 42.7 | $ (2.6) | $ 13.5 | $ 189.6 | $ 2.6 | $ 192.2 | $ (56.7) | $ 135.5 |
| **Select Period End Balances** | | | | | | | | | |
| Loans including receivables pledged | $ 7,896.1 | $ 1,282.6 | $ 2,622.6 | $ 4,036.5 | $ 15,837.8 | $ 7,898.9 | $ 23,736.7 | $ | $ 23,736.7 |
| Credit balances of factoring clients | | | (1,110.7) | | (1,110.7) | | (1,110.7) | | (1,110.7) |
| Assets held for sale | 171.0 | 261.3 | | 738.6 | 1,170.9 | 3.5 | 1,174.4 | | 1,174.4 |
| Operating lease equipment, net | 72.8 | 10,545.9 | | 421.5 | 11,040.2 | | 11,040.2 | | 11,040.2 |
| **For the quarter ended March 31, 2010** | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total interest income | $ 548.0 | $ 63.7 | $ 30.5 | $ 362.0 | $ 1,004.2 | $ 95.9 | $ 1,100.1 | $ 4.6 | $ 1,104.7 |
| Total interest expense | (298.8) | (258.3) | (41.6) | (167.9) | (766.6) | (66.8) | (833.4) | 2.0 | (831.4) |
| Provision for credit losses | (133.9) | (1.3) | (33.9) | (52.5) | (221.6) | (4.5) | (226.1) | | (226.1) |
| Rental income on operating leases | 8.8 | 306.8 | | 110.8 | 426.4 | | 426.4 | (0.6) | 425.8 |
| Other income, excluding rental income | 102.6 | 22.2 | 49.2 | 38.8 | 212.8 | 5.8 | 218.6 | (68.2) | 150.4 |
| Depreciation on operating lease equipment | (3.6) | (78.6) | | (90.7) | (172.9) | | (172.9) | 0.2 | (172.7) |
| Other expenses | (79.9) | (39.6) | (32.0) | (86.9) | (238.4) | | | | |