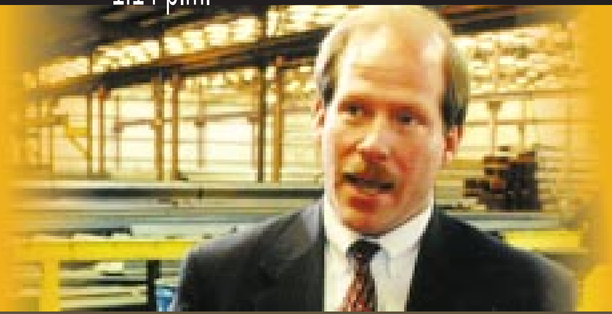
7:05 a.m.

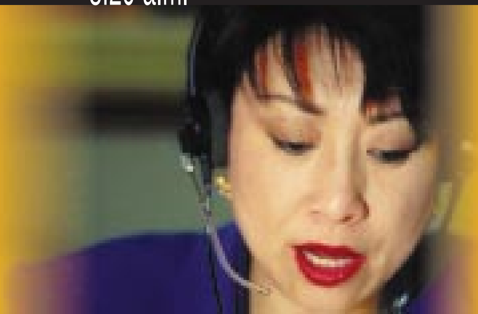
The CIT Group

1:14 p.m.



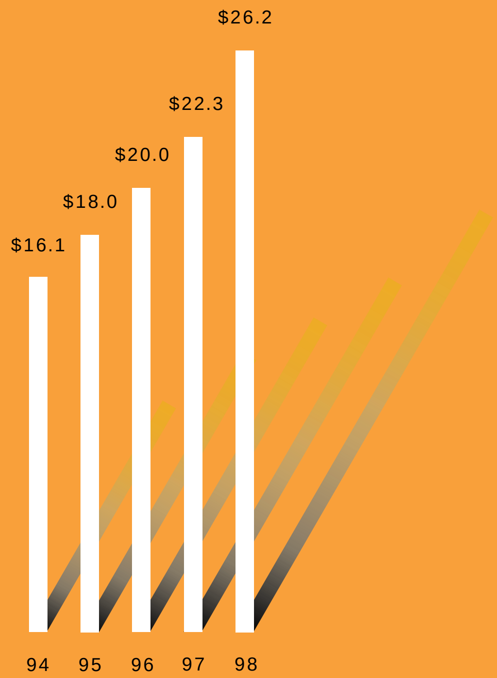
1998 Annual Report

8:20 a.m.



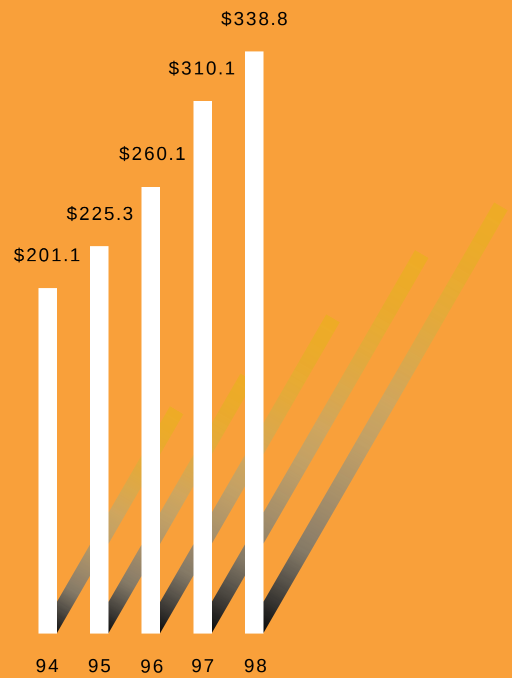
Managed Assets

In billions



Net Income

In millions



Stockholders' Equity

In billions

Financial Highlights

At or for the Years Ended December 31, (Dollars in Millions, except per share amounts)	1998	1997	1996
Operating revenue	$ 1,230	$ 1,193	$ 1,042
Salaries and general operating expenses	418	428	393
Depreciation on operating lease equipment	170	147	122
Provision for credit losses	99	114	111
Pre-tax income	524	488	416
Net income	339	310	260
Net income per diluted share	$ 2.08	$ 1.95	$ 1.64
Managed assets	$26,216	$ 22,345	$20,005
Financing and leasing assets:			
Commercial	$18,363	$ 15,960	$15,160
Consumer	5,254	3,933	3,355
Other	82	66	53
	$23,699	$ 19,959	$18,568
Capitalization:			
Total debt	$18,651	$ 15,315	$14,606
Preferred capital securities	250	250	-
Stockholders' equity	2,702	2,433	2,075
Reserve for credit losses	264	236	221
Key Ratios			
Return on average stockholders' equity	13.2%	14.0%	13.0%
Return on average earning assets	1.65%	1.70%	1.57%
Net credit losses (% of average finance receivables)	0.42%	0.59%	0.62%
Efficiency ratio	40.1%	41.6%	42.7%
Reserve for credit losses (% of finance receivables)	1.33%	1.33%	1.30%
Past due 60+ days (% of finance receivables)	1.75%	1.67%	1.72%
Debt to stockholders' equity and preferred capital securities	6.32-1	5.71-1	7.04-1
Employees	3,230	3,025	2,950

President's Letter

Let me begin this Letter with a statement readers have come to expect in the opening of our Annual Report – **1998 was another record year for The CIT Group.**

In our first full year of public ownership, we achieved record earnings of $338.8 million or $2.08 per diluted share up from $310.1 million or $1.95 per diluted share in 1997. This marks our eleventh consecutive year of earnings growth. Perhaps, even more significantly, we have continued an unbroken chain of profitability from our earliest days — **CIT has been profitable each and every year since its founding in 1908!**

All of our eight operating units increased their new business originations in 1998 and each achieved double-digit asset growth. Consequently, commercial managed assets grew by a healthy 15 percent and consumer managed assets grew by an even more robust 23 percent.

In 1998 we not only improved profitability, we also experienced greater operating efficiency and lower credit costs. At the close of the year, we initiated and successfully completed a Secondary Offering of stock which more than doubled our public float, increased our financial flexibility and eliminated CIT's dual class of stock. Our Offering was hailed as the largest of the year and one of the largest in our industry for some time. As a result of the Offering, The CIT Group is now owned approximately 56 percent by the public and 44 percent by The Dai-Ichi Kangyo Bank Ltd.

Our balance sheet has never been stronger and, I am proud to say, CIT is better positioned than it has ever been for continued financial success.

The achievements recorded in 1998 resulted from another fine effort from the more than 3,200 employees of CIT. After all, a company is nothing more than the people who help ensure its progress with their hard work and commitment. Someone once said that "teamwork is the fuel that allows common people to achieve uncommon results" and there is a sense of purpose and community within our Company that dramatically reinforces that sentiment.

"The achievements recorded in 1998 resulted from another fine effort from the more than 3,200 employees of CIT. After all, a company is nothing more than the people who help ensure its progress with their hard work and commitment."

This Annual Report celebrates the dedication of CIT's employees and, by example, features eight individuals who are hard at work as members of the CIT community. They are representative of all of their colleagues at CIT, symbolizing the depth and breadth of CIT, the market diversity of our organization, our geographic reach and the quality of our workforce. They work hard for their Company and for their families, and their stories truly reflect their commitment.

Let me introduce you to these CIT "road warriors" and the operating units they represent. I hope you'll take the time to learn more about them — and our Company — in the pages that follow.

Melissa Bruseski, is a Business Development Manager for CIT's Sales Financing unit, which specializes in retail and wholesale financing of recreation vehicles, manufactured homes and recreational boats. Working out of Florida, Melissa has been instrumental in leveraging SF's major retail financing strength to also finance inventory held for sale by dealers. It is through sales representatives like Melissa that strong dealer relationships have become the hallmark of SF's success in the market, a position that was further strengthened in 1998.

Mark O'Neal is the Central Territory Account Executive for Consumer Finance, the CIT unit that offers home equity loans and lines of credit. Mark, who has been with CIT for five years, has a territory that includes the Tulsa, Oklahoma area not far from his home where he maintains an office. Like our other featured employees, he has become

expert at juggling home and work demands, and works anything but a routine "9 to 5" day. In 1998, Consumer Finance produced over $1.5 billion in home equity loans, a 30 percent increase over the previous year, while expanding its network of origination offices to 33 nationwide.

Joe Mankowski, a three-year veteran of CIT, is Vice President/Leasing with Capital Finance's Rail Resources unit, with headquarters in New York City. Joe's group leases railcars to shippers and railroads throughout the nation and Canada. Last year, the CF rail resources unit recorded record growth through the acquisition of new and used railcars. Also, in 1998 the unit began to acquire and refurbish used locomotives in a continuing effort to diversify its portfolio. Capital Finance, a leader in commercial aircraft leasing for the past three decades, enters 1999 with a strategy in place to acquire new aircraft.

Michael Johnson is Manager of Communications and Entertainment Lending for CIT's Equipment Financing unit, working out of the Atlanta region. Known for decades as a premier "yellow iron" lender, EF has a number of quality salespeople like Michael scouring the country bringing this unit's extensive lending and financing expertise to markets outside of its traditional industries such as construction. In 1998, CIT's largest unit acquired a telecommunications equipment financing company and opened a small ticket equipment financing division to further diversify its marketing mix.

Vivian Lee is Vice President/International Marketing with our Commercial Services unit, one of the largest factoring companies in the U.S. Vivian is based on the West Coast and is responsible for establishing new business relationships, with a special emphasis on Asian manufacturers,

"The people of CIT are essential to its growth. But it is CIT's responsibility to provide all of its people with the strongest financial base from which to do business."

exporters and importers, and for introducing these prospects to the array of financing products and services offered by her unit. In 1998, Commercial Services achieved record levels of Average Earning Assets and strong factoring volume growth.

Mark Bohntinsky, a Vice President and business development officer for our Business Credit unit, works out of the Chicago area. This past year Mark and his colleagues at BC generated record new business volume and helped this unit provide its core products — revolving credit and term loans for middle market and larger companies — to a growing number of businesses throughout the U.S. During the past year, BC further penetrated the high-tech market with transactions involving nearly two dozen new clients, while expanding its portfolio in wholesale, distribution and commodity-like industries such as plastics and steel.

Eric Gill, Vice President of Credit Finance's Small Business Lending Group and a four-year veteran of CIT, works out of the Charlotte office and his clients are industry diverse, including manufacturers, distributors, wholesalers and service companies. In 1998, Credit Finance saw its new business volume increase more than 60 percent, an accomplishment supported by the opening of new loan origination offices in Baltimore, Denver and Philadelphia, the development of a focused, strategic marketing plan, expansion of its salesforce and a continued emphasis on providing small and mid-sized companies with the liquidity they need to grow and manage their businesses.

Rounding out this group is Colby Collier, Managing Director for Equity Investments/Venture Capital. EI and its sister company, Venture Capital, participate through equity and equity-related investments, in the growth and development of a number of diverse and exciting companies. EI enjoyed

its strongest year of origination since its inception in 1991, and led its largest industrial buyout to date. In 1998, the unit also made its first investments in Internet and e-commerce companies.

As I noted, these eight people are representative, not only of our salesforce, but also of the quality and character of the CIT employee population at large. Our employees are a committed, dedicated group, capable of accomplishing great things together.

Last year we also expanded our Board of Directors to include three new members, each of whom brings a valuable and different perspective to a newly public CIT. Daniel Amos, President and Chief Executive Officer of AFLAC, Inc., heads one of the largest insurance companies in the world. Alan White, Senior Associate Dean of the Massachusetts Institute of Technology Alfred P. Sloan School of Management, represents one of the most widely known and respected educational institutions in the world. Anthea Disney, Chairman and Chief Executive Officer of News America Publishing Group, is affiliated with one of the world's largest media organizations. We are confident that each of these new Board members will make an important and vital contribution to CIT's future.

As I said earlier, the people of CIT are essential to its growth. But it is CIT's responsibility to provide all of its people with the strongest financial base from which to do business. That being said, as we go to press with this Annual Report, we are very pleased to highlight the announcement of our intended acquisition of Newcourt Credit Group Inc. (NYSE:NCT and TSE:NCT), in a substantial effort to reinforce an already strong base.

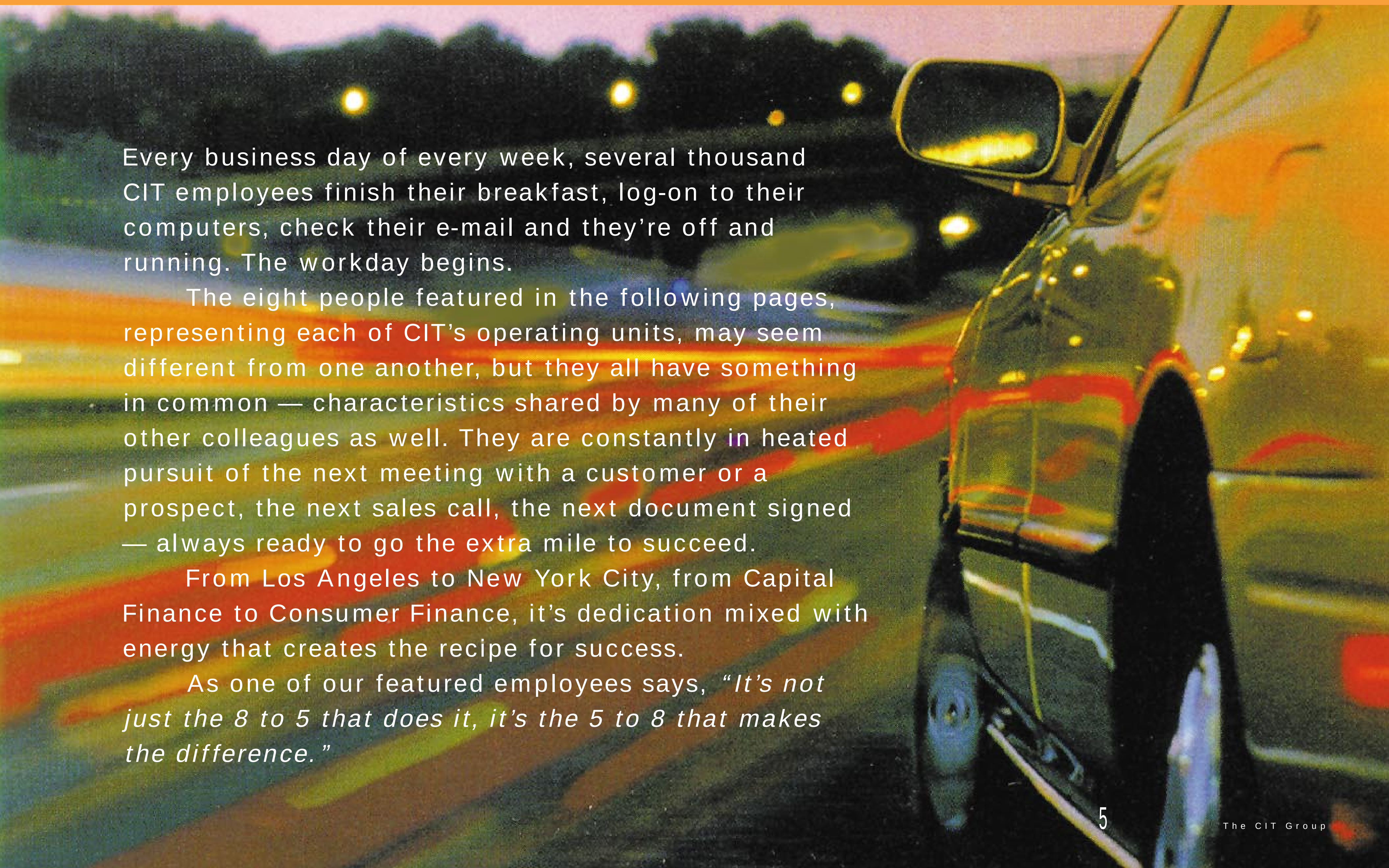
"As we near the conclusion of one century and the beginning of the next, The CIT Group and its employees can look back upon a tremendous legacy, a history of growth and success that few companies — let alone competitors — can boast about."

As we noted in our press announcement, the merits of this transaction are obvious – "it combines two companies with exceptionally strong credit cultures that, together, can deliver high-quality, sustainable growth at increased margins and, in turn, build shareholder value." On a combined basis, The CIT Group will have more than $2.2 billion in revenues, $50 billion in managed assets and $500 million in after-tax earnings. We will be the largest publicly owned company in the commercial finance industry, with leadership positions in diverse businesses, and more than 8,000 employees in 26 countries. As I said in our press release, "this is a bold and transforming transaction for CIT, combining our extensive management experience and 'best-in-class' credit capabilities with Newcourt's innovative, entrepreneurial spirit and 'second-to-none' origination platforms."

The next year and the next century promise to be even more exciting for The CIT Group. We have a legacy and a record that few companies – let alone competitors – can boast about. We are proud of the solid foundation we have established and we look forward to greater success in the future. With the support of our employees, customers and shareholders, The CIT Group welcomes the challenges of the New Millennium.

Albert R. Gamper, Jr.
President and Chief Executive Officer

a day in the life...

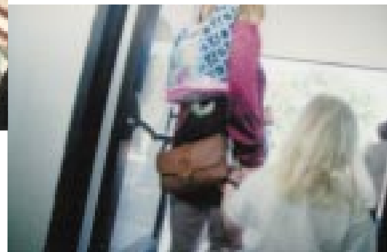


Every business day of every week, several thousand CIT employees finish their breakfast, log-on to their computers, check their e-mail and they're off and running. The workday begins.

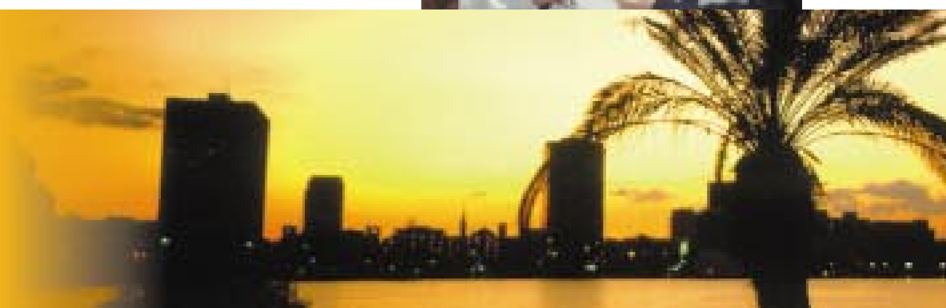
The eight people featured in the following pages, representing each of CIT's operating units, may seem different from one another, but they all have something in common — characteristics shared by many of their other colleagues as well. They are constantly in heated pursuit of the next meeting with a customer or a prospect, the next sales call, the next document signed — always ready to go the extra mile to succeed.

From Los Angeles to New York City, from Capital Finance to Consumer Finance, it's dedication mixed with energy that creates the recipe for success.

As one of our featured employees says, *"It's not just the 8 to 5 that does it, it's the 5 to 8 that makes the difference."*



Melissa Bruseski



6:12 a.m.

Melissa Bruseski, Business Development Manager, Sales Financing, checks her voice mail from her Florida home office before business hours really begin. "I'm constantly calling boat, manufactured housing and recreation vehicle dealers. 'Dialing for dollars.' I have to set myself apart from the competition. A dealer once called at 7 a.m. on a Sunday."

7:10 a.m.

After making breakfast – "whatever's quickest," says Bruseski – she takes 5-year-old Emily to school while husband, Vincent, keeps 2-year-old Ryan busy at home. Bruseski, who gave birth to her third child in March, heads to the airport to hit the New York Boat Show in Manhattan, "a premiere show for CIT," she says.

10:37 a.m.

Arriving at LaGuardia Airport, New York. Bruseski usually works from home, but it's at the trade shows where she really gets to connect with clients. Her job is to set up credit lines for dealers so they can purchase floor planning products. "Like when you walk into the showroom and see the boats... I help them purchase those display models."

11:45 a.m

Smooth sailing – Bruseski glides from display to display, from motorboat to 50-foot yacht, meeting current clients that carry boatlines such as Silverton, Fountain and US Marine and introducing herself to new prospects. To see this many customers, she'd normally have to travel nationwide. "I cover marine products for 23 states," she says. "The whole East Coast."

Orlando, FL

4:43 p.m.

The phone work doesn't stop. Bruseski checks in with the Livingston office to run some numbers on a deal in progress. Then returns a call which has rolled to her pager from a boat dealer who's not at the show. "Access is key," she says.

6:12 p.m.

"The boat industry is a men's industry. I was 18 when I started in this business and I remember the big deals closing at the boat show. And they were always men making the deals. I thought, 'One day I want to be there.' Well, I'm here. I've arrived."

8:40 p.m.

Bruseski makes one final call of the day – to her husband and kids back home. "Vincent is Mr. Mom," she says. "He stays home with the kids. But he helps me do my job. He knows it inside and out. He critiques me and keeps me on my toes."

Mark O’Neal

Mark O’Neal, Central Territory Account Executive, Consumer Finance, packs his car trunk with a windbreaker and umbrella before leaving for Oklahoma City headquarters, 100 miles away. “Oklahoma has the most drastic weather changes in the world,” Mark says. “One time it was 70 degrees at lunch, and later I drove home in two inches of snow.”

7:20 a.m.

Constantly on the road, O’Neal meets up to eight clients a day. “My clients are brokers,” says Mark. “We originate our loans through our mortgage brokers, rather than directly to the consumer. I introduce them to new loan products and look at the loans they have pending.”

9:10 a.m.

Business lunch at the popular Lone Star Steakhouse with a potential client. “A lot of clients like to go there. Although the other day I had a guy who wanted to go to Wendy’s.” From there, it’s on to an established client, Associated Mortgage Company. Primarily a purchase money lender, Associated is one of the largest brokers in the state, and a CIT customer for the past four years.

12:02 p.m.

Meeting with branch manager, Floyd Goode, over loan files. “We have to do a review for one of his clients, United Wholesale Lending. He’ll originate the loan, then I look at the information and see what we can do as far as booking the loan,” says O’Neal.

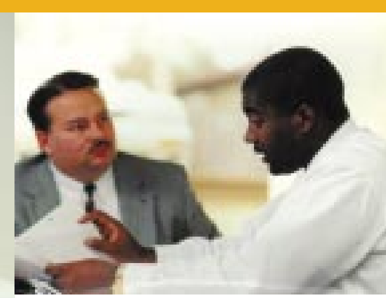
Back home at Lake Keystone outside Tulsa, work doesn’t end. O’Neal takes a call in his home office. There’s a computer, fax – mostly for loan approvals from the main office – not to mention the T.V., VCR and Nintendo for the kids, 9-month-old Caleb and 6-year-old Jacob.

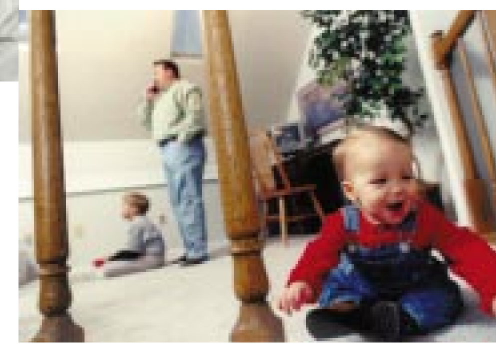
Batter up – In the spring, O’Neal coaches Jacob’s baseball team. It’s batting practice for Jacob, while teammate Heath takes it all in. “The Mannford Black Cobras,” says O’Neal proudly, “were the grand champions last season, 36 and 2.”

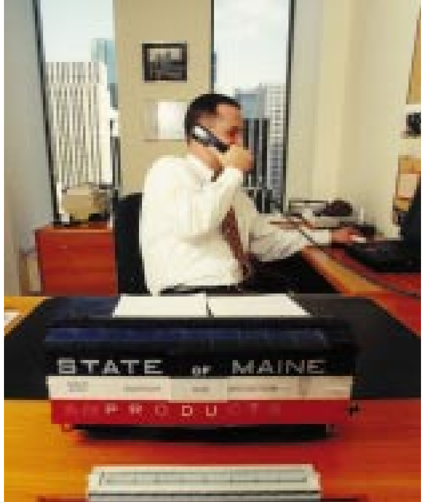
1:43 p.m

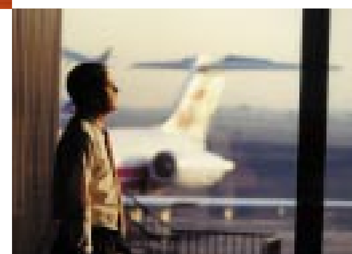
6:30 p.m.

Tulsa, OK

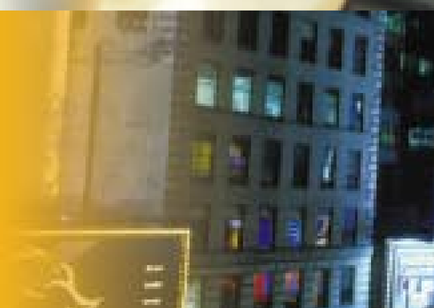


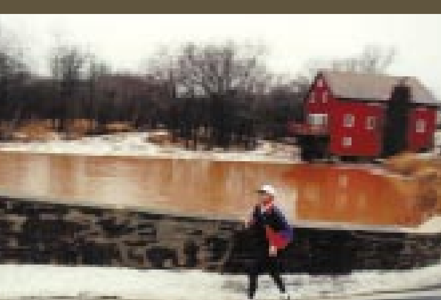






Joe Mankowski





6:12 a.m.

Joe Mankowski, Vice President, Leasing, Capital Finance goes for his morning run past an old grist mill in Skillman, N.J., the town where he lives with his wife, Carol, and three kids, Emily, Joseph and Michael. By 7:30, he hops a NJ Transit commuter train to Penn Station in New York.

9:37 a.m.

In his Manhattan office, Mankowski gets down to business – leasing railroad cars. This morning he's reviewing a new contract for covered hopper cars that haul grain and soda ash. "The contents are used for everything from feeding chickens to producing bottles and windows."

12:07 p.m

Meet him in St. Louis – "I travel 60 percent of the time," says Mankowski, who flies from Newark Airport to Missouri for a meeting with a client. When he started at CIT three years ago, CIT handled 1,500 railcars on operating leases. Today, they have 20,000. "Although CIT has provided financing in Rail for decades, I was one of the first sales and marketing guys for the new operating lease group," says Mankowski, whose clients spread from Virginia to Kansas City and include such companies as Archer Daniels Midland, one of the largest grain processors in the nation. At a pre-meeting with a marketing colleague, John Glynn, at Union Station in St. Louis. "We need to review our lease renewal proposal prior to presenting it to the customer."

New York,NY

2:21 p.m.

William McNally and Charlie Henderson of Ameren, a St. Louis based utility, one of CIT's original coal car customers from 1994, at their headquarters. Mankowski negotiates their lease renewal on two train sets – a total of 240 rail cars for hauling Powder River Basin coal. "The negotiations were successful," Mankowski says later. "They renewed."

4:40 p.m.

Inspection time – Mankowski walks atop a railroad car, looking for defects, making sure the trains are in top condition. "Before I moved to sales and marketing 10 years ago, I started on the mechanical side of the business, handling repair bills and doing fleet management," he says.

So Mankowski knows what to look for when inspecting railcars – hatch covers on top of the car often slam down and crack. "That makes the corn flakes soggy," he jokingly says of the contents.

Michael Johnson, Manager of Communications and Entertainment Lending for Equipment Financing, grabs breakfast at the local OK Cafe on the way to a meeting in Atlanta. "We deal with everything from broadcasting companies to telephone companies to cellular and cable companies," says Johnson.

"Anything that falls under FCC regulations." With his special knowledge of that niche market, Johnson finances senior business loans and equipment loans, from $2 million up.

In the beginning – meeting at Genesis Communications, a radio station in need of a $3.5 million loan. And out at the company's satellite receiver with owner Bruce Maduri. Sometimes Johnson courts his customers for years before a deal is actually made. "Part of my job is to make sure I'm around when the time is right."

"There may only be a window of opportunity every other year with a client," he says. "Sometimes every three years. Broadcast people are real entrepreneurs. I have to know them, their characteristics, and what they want."

8:09 a.m.

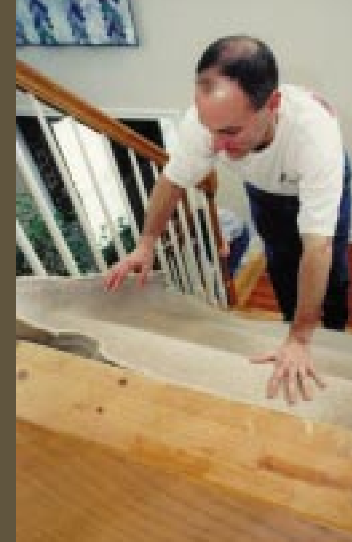
9:40 a.m.

Michael Johnson

Back at headquarters in the Perimeter area of Atlanta. Johnson meets with his colleagues Steve Turpin and Tom Modisett. “I act as an intermediary,” says Johnson. “I represent CIT to my customer, but also my customer to CIT. When the proposal is signed, it's just the beginning of the relationship. I follow it through.”

In the case of Genesis, the deal is done. But new business awaits, buying into a $320 million deal with a northwestern communications conglomerate. “We’re buying a $15 million piece of it,” says Johnson.

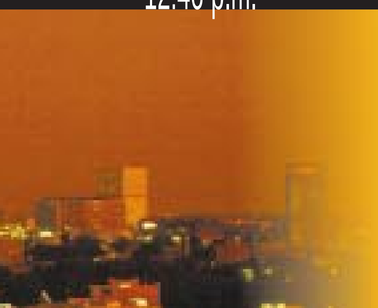
Home improvement – Unless he's traveling for business, visiting clients from Maine to Nashville, Johnson gets home at a decent hour each night. He and his wife, Nancy, are renovating their Kennesaw, Ga. home. “We're putting in new carpet and painting the house,” says Johnson.



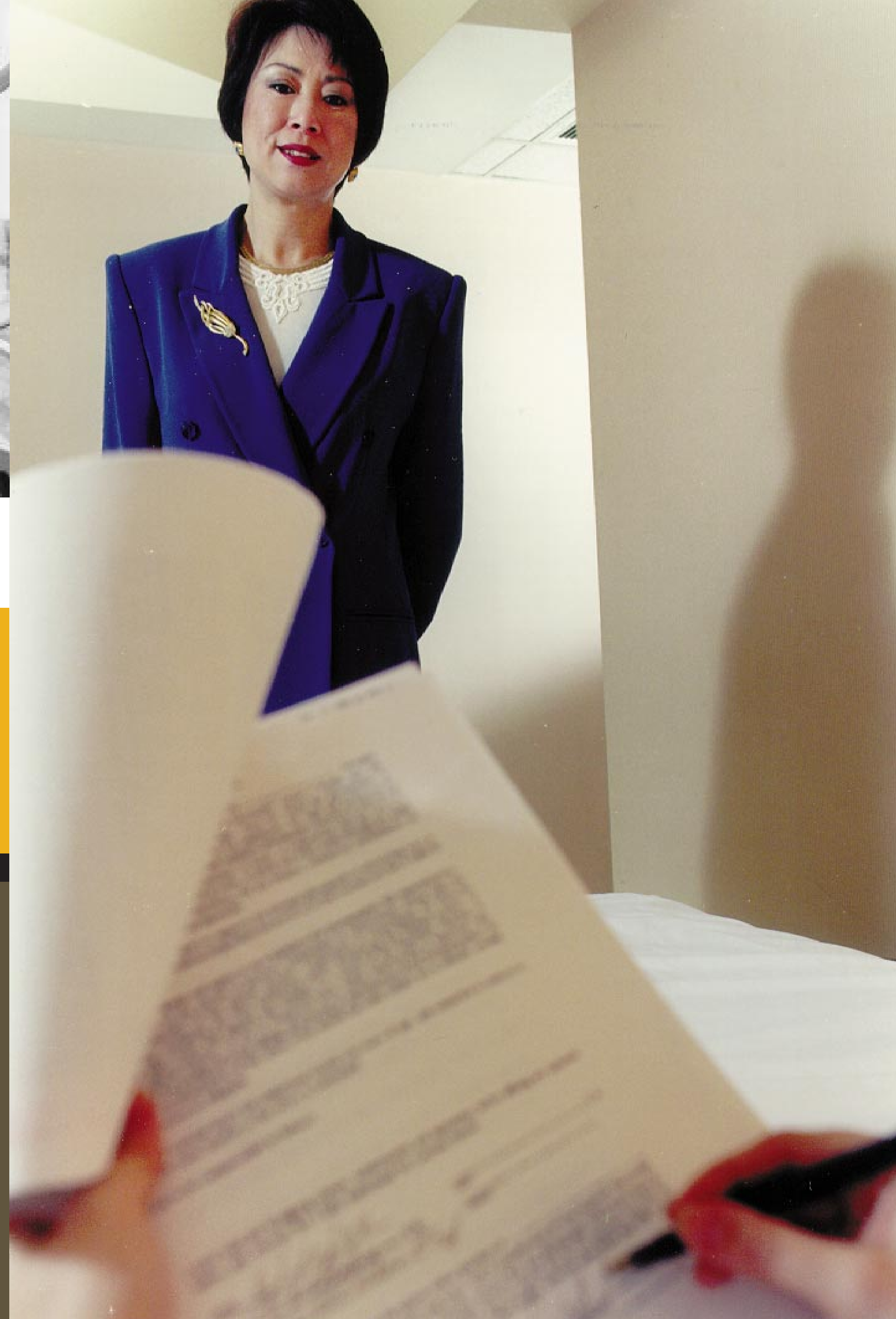
Gone fishing – Before sunset, Johnson and his wife take the kids, Linzy, 11, and Ben, 6, fishing at the pond in their subdivision. With cheerleading practice and the community basketball league, the family doesn’t get much down time. “It seems the evening doesn't last very long,” says Johnson.

12:46 p.m.

5:58 p.m.



Atlanta, GA



Vivian Lee

6:40 a.m.

Vivian Lee, Vice President of Commercial Services, has breakfast with her puppy, Nikki, and her husband, C.J., in her L.A. home. She has a long day ahead selling factoring, accounts receivable management, credit guarantee services and asset-based lending, mostly to the Asian business community. "I have some juice with my husband, feed the animals and then go," says Lee.

8:30 a.m.

On the day a factoring agreement is to be signed with Interbright, an importer and wholesaler of women's shoes, Lee is told that one of the owners has had an accident. An Interbright rep tells her to go to the hospital, so the contracts can be signed. "My first instinct is to wait until she's feeling better. But the owner wants to sign and get the business going," says Lee.

Los Angeles, CA

9:33 a.m

Driving cross town, Lee arrives at the hospital, charges past doctors, nurses and patients to find the owner lying in a hospital bed. “She didn't want her accident to cause any delays. The agreement was signed and Commercial Services added another satisfied client to our roster.”

11:07 a.m.

Hopping a plane to San Francisco to attend a furniture trade show, where she‘ll make some new contacts and educate prospective clients on factoring. “I‘m always on the go, I have a high level of energy. I keep going and going and going.” Last year, she put 23,000 miles on her car.

1:15 p.m.

Meeting with Frank Yip, branch manager of Coaster Co. of America at the Furniture Wintermarket show. While doing business, Lee speaks both English and Chinese (up to four different dialects). “I‘m a bridge to the Asian community for CIT,” says Lee. “I explain to them what factoring is. One meeting with me and they say, 'Vivian knows what she‘s talking about.'”

2:30 p.m.

Working the floor, visiting 40 new prospects and existing clients of the 200 plus exhibitors. “I go to over a dozen shows a year,” says Lee, who also handles the shoe, houseware, high tech, apparel and seafood industries. “We‘re seeking long-term relationships. If they grow, we grow,” says Lee.

5:45 p.m.

Booth to booth – Lee drums up several possibilities – a new importer, a furniture accessory business, a patio furniture company and a sofa manufacturer. “My job at CIT is to develop other industries besides the traditional garment business. Everything, when you flip it on its back, says, ‘Made in Taiwan’ or ‘Made in China.’ Those are the companies I'm after.’”

Mark Bohntinsky, a Vice President in the Business Credit Unit, rides the L to work every morning from the north side of Chicago to his downtown office. "I cover the midwest out of Chicago," says Bohntinsky. "Missouri, Illinois, Iowa, Nebraska." Bohntinsky seeks out new middle-market companies to do business with. "I keep in constant touch with the companies themselves and with my referral sources."

7:52 a.m.

Checking his sources – Bohntinsky plans his strategy. Who to call first? "I get most of my leads from law firms and from accountants, a lot of times through word of mouth. Sometimes I do cold calling. You have to be ready to set up a meeting at the drop of a dime."

Meeting with Tim Ford, president of a potential client, J.C. Whitney & Co. in Ford's Chicago office. The automotive parts catalogue company is interested in senior credit financing – up to $25 million. Ford and Bohntinsky discuss the upcoming distribution of new catalogues and the effect it might have on sales.

9:20 a.m.

Face to face – Lunch with a source on LaSalle Street, the heart of the Chicago financial District. "I have about 30 A list contacts who I try to meet with once a quarter," says Bohntinsky. "You need face time with people."

12:15 p.m.

Mark Bohntinsky

Chicago, IL

1:43 p.m.

Meeting with in-house attorney Bob Agler. Bohntinsky discusses a $50 million deal with a retailer. "Bob helps me with landlord waivers and legal collateral issues. Everyone in our office works as a team."

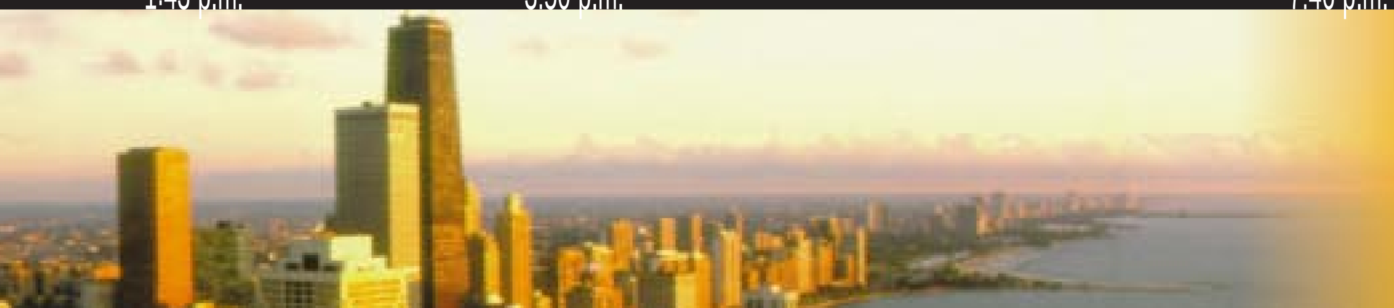
3:50 p.m.

In the mix – Bohntinsky discusses upcoming contracts with Michael Oremus of Prairie Material Sales Inc., a ready-mix concrete company that services the Chicago area. Prairie has been a customer of CIT's for over 10 years.

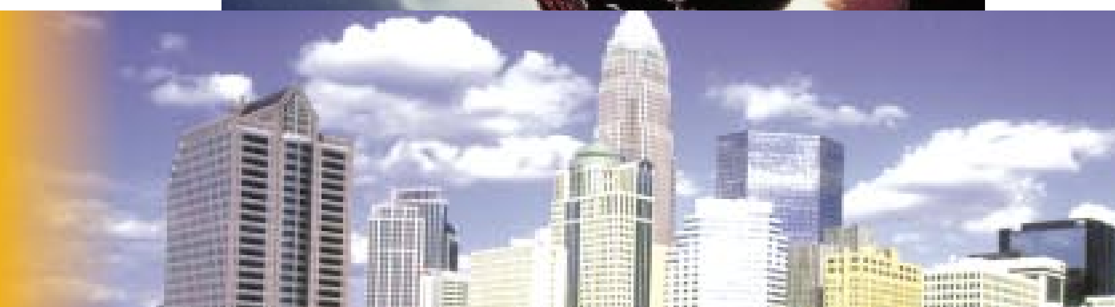
Dinner with girlfriend, Cindy Frazier. "What's nice about Chicago is there are so many restaurants. Cindy and I are always trying new places." Bohntinsky eats out about four nights a week. "My idea of cooking is having a bowl of cereal," says the bachelor.

7:46 p.m.

A half mile from his apartment, strolling past Wrigley Field. "Sometimes I bring clients to Wrigley." As part of a special Ump's Eye View program, clients can meet the umpire before the game. "The seats are right behind home plate. Everyone walks away with a free baseball." And in a good mood to talk business.



Eric Gill



5:30 a.m.

On the run – Eric Gill, Vice President, Credit Finance's, Small Business Lending Group, takes a 3.5 mile jog to get the blood flowing. "That's my solitude," he says of his morning ritual. "I can watch the sun rise over the Carolina pines."

8:30 a.m.

Strategy session – at CIT headquarters in Charlotte, Gill meets with co-workers to discuss DuBose Steel Inc., a company looking to refinance. "We set out a plan of action before the day gets chaotic and the phones start ringing."

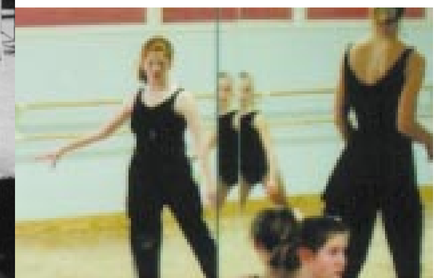
9:31 a.m.

Gill consults a colleague to review the funds available based on the collateral of DuBose Steel. The company already has a deal with another lender ready to go and has an auditor reviewing their books and records. So time is of the essence. "It's my job to convince them our plan is better."

9:58 a.m.

Hot tips – on the long drive to Roseboro, NC, not a minute of work time is wasted. Gill touches base with his referral sources, mostly Charlotte CPAs who are plugged into the community. "I have a mobile phone that practically does my calling for me."

A call to a possible client is placed – a cleaning supply company – to find out if they're "a good fit." Gill sets up a meeting with the company for the next day, including a tour of its warehouse.



Charlotte, NC

12:07 p.m

Steel deal – Gill meets with DuBose's owners at the steel processing plant, with a precise package of what CIT is willing to offer. He also takes a tour with a CIT account executive, who would be responsible for the day-to-day relationship with DuBose. "CIT's line of credit would assist them to purchase new machinery, like the big metal cutter."

6:38 p.m.

Home again – within the next 48 hours, DuBose will sign the proposal with CIT. Gill heads back, just in time to watch 11-year-old daughter, Casey, take her ballet class. "Evening is a time when we all sit down together," says Gill, enjoying dinner with his wife Terri and two daughters. After dinner, 14-year old daughter, Sarah helps Gill wash the dishes.

Colby Collier, Managing Director of Equity Investments and Venture Capital, is the first to rise in his Chatham, NJ home. By the time he's ready to leave, his wife, Sheila, 5-year-old daughter, Erin, and 3-year-old son, Colby, Jr., are awake to say good-bye. "I travel about 40 percent of the time on the job," says Collier.

Stopping at the Livingston CIT headquarters – Collier needs to wrap up some loose ends before leaving for a four-day conference in Phoenix. After making an initial investment in a company, Collier helps build value by serving on its Board of Directors. One such company is Lionheart Industries – formed by CIT Venture Capital and an industry executive to acquire and consolidate foundry and casting operations.

While driving to Newark Airport, Collier checks in with the management team for a diversified plastics processor. Collier's division specializes in investing in management-led buyouts and corporate divestitures. "We can't wait and respond to a deal. That's being reactive. We need to create the opportunities ourselves."

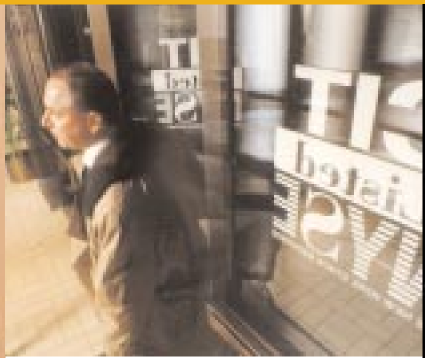
6:40 a.m.

7:10 a.m.

8:45 a.m.

10:09 a.m.

Colby Collier



4:08 p.m.

In Phoenix, Collier discusses a potential joint investment opportunity with a potential partner during a game of golf. "You have to forge relationships with accountants, lawyers and investment bankers, but also become entwined in successful circles where business leaders who've achieved a certain level tend to circulate."

7:11 p.m.

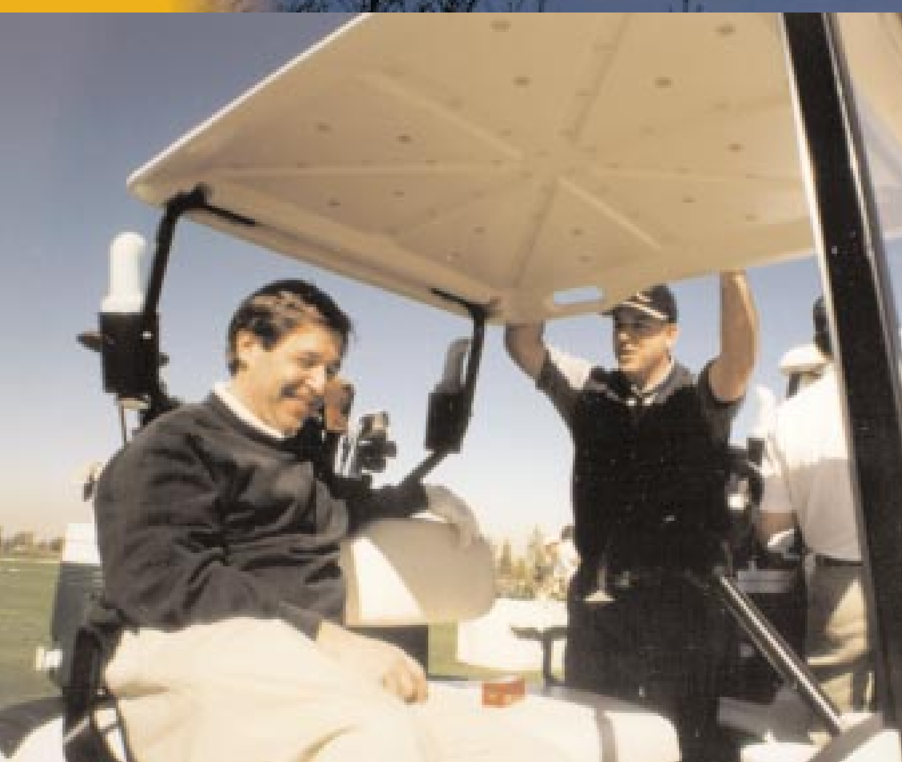
"The conference is a very good neutral zone to meet potential partners and competitors," says Collier, at Private Equity Roundup '99, where he networks with venture capitalists and other private equity sources.

8:31 p.m.

Before 200 industry professionals, Collier leads an expert panel on new trends and opportunities in direct investing and co-investing – how to build a team, generate deal flow and predict where a business trend will go.

"The exercise is not so much looking at the past of a company, but looking into the future," says Collier. "You have to envision what the future will hold. It takes some detective work, more trying to anticipate how the market might view a company a few years down the line."

Livingston, NJ



Financial Information

Overview

For the year ended December 31, 1998, our net income totaled $338.8 million, increasing from $310.1 million in 1997 and $260.1 million in 1996. The 1998 earnings represented the eleventh consecutive increase in annual earnings, and the eighth consecutive year of record earnings. The 1998 results reflect continued significant portfolio growth, lower commercial credit losses and further improvements in operating efficiency. The improvements in 1997 over 1996 resulted from stronger revenues from a higher level of financing and leasing assets and the 1997 special items described below.

The following table summarizes our net income and related data, excluding the 1997 special items:

	1998	1997	1996
Net Income (Dollars in Millions)	$338.8	$287.5	$260.1
Earnings per diluted share (EPS)	$ 2.08	$ 1.81	$ 1.64
Return of average stockholders' equity (ROE)	13.2%	13.1%	13.0%
Return on average earning assets (ROA)	1.65%	1.58%	1.57%

1997 Special Items - The 1997 earnings included a one-time $58.0 million pretax gain on the sale of an equity interest acquired in a loan workout partially offset by certain non-recurring expenses which principally related to our fourth quarter 1997 initial public offering ("IPO"). Including these special items, net income was $310.1 million, with EPS of $1.95, ROE of 14.0% and an ROA of 1.70%.

Managed assets totaled $26.2 billion in 1998, $22.3 billion in 1997, and $20.0 billion in 1996. The 1998 increase of 17.3% over 1997 reflects record internally generated new business, with strong performances across all three segments. The 1997 increase of 11.7% over 1996 was principally the result of strong growth in consumer receivables and operating leases. See "—Financing and Leasing Assets" for additional information.

Net Finance Income

We earn finance income on the loans and leases we provide to our borrowers and equipment users. The interest expense is the cost to us of borrowing funds used to make loans and purchase equipment to lease to customers. The excess of finance income over interest expense is net margin or "Net Finance Income." Growing net finance income is a key to increasing our earnings and profitability. A comparison of the components of 1998, 1997 and 1996 net finance income is set forth below.

Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Finance income	$ 2,015.1	$ 1,824.7	$ 1,646.2
Interest expense	1,040.8	937.2	848.3
Net finance income	$ 974.3	$ 887.5	$ 797.9
Average earning assets ("AEA")	$20,495.8	$18,224.5	$16,543.1
Net finance income as a % of AEA	4.75%	4.87%	4.82%

Net finance income increased 9.8% in 1998 from 1997, and 11.2% in 1997 from 1996. The increases primarily reflect growth in our loans and leases, which we refer to as earning assets, slightly offset by lower margins as a result of the highly competitive environment.

Finance income totaled $2,015.1 million in 1998, $1,824.7 million in 1997, and $1,646.2 million in 1996. As a percentage of AEA (excluding interest income relating to short-term interest bearing deposits), finance income was 9.69% in 1998, 9.92% in 1997, and 9.90% in 1996. The decline in yield in 1998 is principally due to the 1998 decline in market interest rates and the highly competitive marketplace.

Interest expense totaled $1,040.8 million in 1998, $937.2 million in 1997, and $848.3 million in 1996. As a percentage of AEA, interest expense (excluding interest expense relating to short-term interest-bearing deposits and dividends related to preferred capital securities) was 4.94% in 1998, 5.05% in 1997 and 5.08% in 1996, reflecting lower market interest rates. We seek to mitigate interest rate risk by matching the repricing characteristics of our assets with our liabilities, which is in part done through the use of interest rate swaps. For further discussion, see "—Asset Liability Management."

Fees and Other Income

Fees and other income improved to $255.4 million during 1998, from $247.8 million during 1997, and $244.1 million during 1996 as set forth in the following table.

Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Factoring commissions	$ 95.7	$ 95.2	$ 91.0
Fees and other income	90.7	73.8	83.6
Gains on sales of leasing equipment	45.2	30.1	36.6
Gains on securitizations	12.5	32.0	14.9
Gains on sales of venture capital investments	11.3	16.7	18.0
	$255.4	$247.8	$244.1

The 1998 increase reflects higher fees from servicing and commercial businesses and improved gains on the sale of equipment coming off lease. We realized in excess of 100% of equipment residual book value in 1998, 1997 and 1996. These increases were offset by sharply lower gains on reduced securitization activity. Our fees and other income increased in 1997 from 1996 primarily due to higher factoring commissions and gains from higher levels of securitization activity, offset by lower gains on the sale of equipment coming off lease.

Gain On Sale of Equity Interest Acquired in Loan Workout

We originated a loan in the 1980's to a telecommunications company that subsequently went into default. Pursuant to a workout agreement, the stock of that company was transferred to us and a co-lender. In 1991, we received all amounts due and retained an equity interest in such telecommunications company, which we sold in the second quarter of 1997 at a pretax gain of $58.0 million.

Salaries and General Operating Expenses

Salaries and general operating expenses were $417.8 million in 1998, $428.4 million in 1997, and $393.1 million in 1996. The 1997 expense included a $10.0 million pretax charge relating to the termination of a long-term incentive plan in connection with the IPO, higher performance based incentive accruals, and a provision for vacant leased space. Without these items, 1997 salaries and general operating expenses would have been $408.4 million.

Our personnel increased to 3,230 at December 31, 1998, from 3,025 at December 31, 1997 and 2,950 at December 31, 1996.

Management monitors productivity via the analysis of efficiency ratios and the ratio of salaries and general operating expenses to AMA. AMA is comprised of average earning assets plus the average of consumer finance receivables previously securitized and currently managed by us. These ratios, excluding the non-recurring pretax gain and expenses previously described, are set forth in the following table.

Years Ended December 31,	1998	1997	1996
Efficiency ratio	40.1%	42.0%	42.7%
Salaries and general operating expenses as a percentage of AMA	1.82%	2.06%	2.22%

The improvement in the ratios reflects our continuing focus on cost containment and ability to leverage our existing operating structure and investments in technology.

We manage expenditures using a comprehensive budgetary process. Expenses are monitored closely by business unit management and are reviewed monthly with our senior management. To ensure overall project cost control, an approval and review procedure is in place for major capital expenditures, such as purchases of computer equipment, including post-implementation evaluations.

Reserve and Provision for Credit Losses/Credit Quality

Our consolidated reserve for credit losses increased to $263.7 million (1.33% of finance receivables) at December 31, 1998, from $235.6 million (1.33% of finance receivables) at December 31, 1997, and from $220.8 million (1.30% of finance receivables) at December 31, 1996. These increases primarily reflect growth in finance receivables in each year.

The relationship of the consolidated reserve for credit losses to nonaccrual finance receivables was 124.7% for 1998, 143.3% for 1997, and 133.3% for 1996. Another measure of reserve adequacy and strength used by us and in our industry is the ratio of the balance sheet reserve for credit losses to trailing twelve month net credit losses (recent credit loss experience). This ratio improved to 3.35 times at December 31, 1998, from 2.33 times at December 31, 1997 and 2.18 times at December 31, 1996.

Our consolidated reserve for credit losses is periodically reviewed for adequacy considering economic conditions, collateral values and credit quality indicators, including charge-off experience and levels of past due loans and nonperforming assets. It is management's judgment that the consolidated reserve for credit losses is adequate to provide for potential credit losses. We review finance receivables periodically to determine the probability of loss, and take charge-offs after considering such factors as the obligor's financial condition and the value of underlying collateral and guarantees. Automatic charge-offs are recorded on consumer finance receivables at intervals beginning at 180 days of contractual delinquency, based upon historical loss severity, with charge-offs finalized upon disposition of the foreclosed property. The consolidated reserve for credit losses is intended to provide for future events, which by their nature are uncertain. Therefore, changes in economic conditions or other events affecting specific obligors or industries may necessitate additions or deductions to the consolidated reserve for credit losses.

The provision for credit losses was $99.4 million for 1998, $113.7 million for 1997, and $111.4 million for 1996. Net credit losses were $78.8 million for 1998, $101.0 million for 1997, and $101.5 million for 1996. Our net credit loss experience is provided in the following table.

Years Ended December 31,	1998	1997	1996
Net credit losses as a percentage of average finance receivables excluding consumer finance receivables held for sale			
Equipment Financing and Leasing	0.18%	0.50%	0.56%
Commercial Finance	0.31%	0.41%	0.67%
Consumer	1.18%	1.09%	0.75%
Total	0.42%	0.59%	0.62%

The decrease in our commercial segments' net credit losses reflects continued improvement in credit quality in our commercial portfolio, sustained strength of the United States economy, and higher recoveries. The increase in our consumer net credit losses is primarily the result of portfolio seasoning and changes in product mix, including an increase in wholesale inventory financing losses. As a percentage of average managed finance receivables, consumer net credit losses were 0.92% for 1998, 0.91% for 1997, and 0.70% for 1996.

Past Due and Nonperforming Assets

The following table sets forth certain information concerning our past due and nonperforming assets (and the related percentages of finance receivables) at December 31, 1998, 1997 and 1996.

At December 31, Dollars in Millions	1998		1997		1996	
Finance receivables, past due 60 days or more						
Equipment Financing and Leasing	$149.9	1.41%	$127.3	1.30%	$150.8	1.52%
Commercial Finance	32.1	0.64%	41.6	0.98%	69.0	1.80%
Consumer	166.0	3.89%	127.7	3.48%	72.5	2.24%
Total	$348.0	1.75%	$296.6	1.67%	$292.3	1.72%
Nonperforming assets						
Equipment Financing and Leasing	$135.2	1.27%	$ 81.6	0.83%	$112.0	1.13%
Commercial Finance	14.5	0.29%	23.9	0.56%	48.4	1.26%
Consumer	129.0	3.02%	101.9	2.78%	53.1	1.64%
Total	$278.7	1.40%	$207.4	1.17%	$213.5	1.26%

Nonperforming assets reflect both finance receivables on nonaccrual status and assets received in satisfaction of loans.

The increase in consumer delinquencies and nonperforming assets from 1997 to 1998 primarily relates to the seasoning of home equity receivables and the growth and expansion of the wholesale inventory financing product line. During 1998, Equipment Financing and Leasing nonperforming assets increased to a more normal level from the particularly low 1997 year-end balance.

From time to time, financial or operational difficulties may adversely affect future payments relating to operating lease equipment. Such operating lease equipment is not included in the totals for past due and nonperforming assets. At December 31, 1998, operations at an oil refinery were subject to such difficulties. The carrying value of this asset was $27.0 million at December 31, 1998. We do not believe these difficulties will have a material effect on our consolidated financial position or results of operations.

Depreciation on Operating Lease Equipment

The operating lease equipment portfolio was $2.8 billion at December 31, 1998, up from $1.9 billion at December 31, 1997 (a 45.6% increase), and $1.4 billion at December 31, 1996 (a 35.9% increase from 1996 to 1997). As a result of this growth, depreciation on operating lease equipment was $169.5 million in 1998, $146.8 million in 1997, and $121.7 million in 1996. See "—Financing and Leasing Assets" for further discussion on growth of our operating lease portfolio.

Income Taxes

The provision for federal and state and local income taxes totaled $185.0 million in 1998, compared with $178.0 million in 1997, and $155.7 million in 1996. The effective income tax rate for 1998 declined to 35.3%, compared with 36.5% in 1997, and 37.4% in 1996, primarily as a result of lower state and local taxes.

Financing and Leasing Assets

Our managed assets grew $3.9 billion (17.3%) to $26.2 billion in 1998, and $2.3 billion (11.7%) to $22.3 billion in 1997. Financing and leasing assets grew $3.7 billion (18.7%) to $23.7 billion in 1998, and grew $1.4 billion (7.5%) to $20.0 billion in 1997. Managed assets include finance receivables, operating lease equipment, consumer finance receivables held for sale, certain investments, and consumer finance receivables previously securitized and still serviced by us. The managed assets of our business segments and the corresponding strategic business units are presented in the following table.

	At December 31, 1998	1997	1996	% Change '98 vs. '97	'97 vs. '96
Dollars in Millions					
Equipment Financing:					
Finance receivables (1)	$ 8,497.6	$ 7,403.4	$ 5,616.8	14.8%	31.8%
Operating lease equipment, net (1)	765.1	623.8	426.6	22.7%	46.2%
Total	9,262.7	8,027.2	6,043.4	15.4%	32.8%
Capital Finance:					
Finance receivables (1)	1,655.4	1,755.5	3,413.5	(5.7%)	(48.6%)
Operating lease equipment, net (1) (2)	1,982.0	1,251.8	912.0	58.3%	37.3%
	3,637.4	3,007.3	4,325.5	21.0%	(30.5%)
Liquidating portfolio (2) (3)	466.9	675.2	952.7	(30.9%)	(29.1%)
Total	4,104.3	3,682.5	5,278.2	11.5%	(30.2%)
Total Equipment Financing and Leasing	13,367.0	11,709.7	11,321.6	14.2%	3.4%
Commercial Services	2,481.8	2,113.1	1,804.7	17.4%	17.1%
Business Credit (4)	1,477.9	1,247.9	1,235.6	18.4%	1.0%
Credit Finance (4)	1,036.5	889.8	797.8	16.5%	11.5%
Total Commercial Finance	4,996.2	4,250.8	3,838.1	17.5%	10.8%
Total Commercial Segments	18,363.2	15,960.5	15,159.7	15.1%	5.3%
Other – Equity Investments	81.9	65.8	53.0	24.5%	24.2%
Consumer Finance	2,244.4	1,992.3	2,005.5	12.7%	(0.7%)
Sales Financing	3,009.9	1,940.7	1,349.8	55.1%	43.8%
Total Consumer Segment	5,254.3	3,933.0	3,355.3	33.6%	17.2%
Total Financing and Leasing Assets	23,699.4	19,959.3	18,568.0	18.7%	7.5%
Finance receivables previously securitized:					
Consumer Finance	607.6	453.8	-	33.9%	100.0%
Sales Financing	1,909.3	1,931.8	1,437.4	(1.2%)	34.4%
Total	2,516.9	2,385.6	1,437.4	5.5%	66.0%
Total Managed Assets – Consumer Segment	7,771.2	6,318.6	4,792.7	23.0%	31.8%
Total Managed Assets	$26,216.3	$22,344.9	$20,005.4	17.3%	11.7%

(1) On January 1, 1997, $1,519.2 million of financing and leasing assets were transferred from Capital Finance to Equipment Financing.

(2) Operating lease equipment, net, of $27.0 million, $30.0 million and $63.5 million are included in the liquidating portfolio for 1998, 1997, and 1996, respectively.

(3) Consists primarily of ocean going maritime and project finance. We discontinued marketing to these sectors in 1997.

(4) In October 1997, $95.0 million of finance receivables were transferred from Business Credit to Credit Finance.

Total commercial segments grew 15.1% from 1997 to 1998. Excluding the liquidating portfolio, the equipment financing and leasing segment grew 16.9%. Growth in finance receivables was principally due to increases in transportation ($.3 billion), and construction ($.1 billion), and the purchase of a telecommunications leasing portfolio ($.2 billion). The operating lease portfolio grew primarily in railroad equipment ($.4 billion) and commercial aircraft ($.3 billion). The commercial finance segment growth (17.5%) was primarily due to higher new business generation, moderated by high customer paydowns.

The consumer segment managed assets grew 23.0% in 1998 reflecting strong home equity originations and strong growth in Sales Financing new business volume, particularly in recreation vehicle, recreational boat, and wholesale inventory financing.

Total commercial financing and leasing assets grew 5.3% in 1997, as compared to 1996, due to strong growth in the operating lease portfolio and commercial finance receivables. The operating lease portfolio grew primarily in commercial aircraft ($.2 billion), railroad equipment ($.2 billion), and business aircraft ($.1 billion). Commercial finance receivable growth was attributable to an improved 1997 retail sales environment and strong new business signings. These increases were partially offset by high customer paydowns in the commercial financing sector due to the strong economy and the availability of alternative sources of capital. Portfolio growth was moderated because we decided in 1997 to liquidate the oceangoing maritime and power generation project portfolios. We determined that the discontinued portfolios do not generate sufficient returns to justify their risk profile.

Consumer managed assets increased $1.5 billion to $6.3 billion in 1997 from $4.8 billion in 1996. This increase reflects strong originations in home equity, recreation vehicle, and recreational boat products and the introduction of wholesale inventory financing.

Financing and Leasing Assets Composition

Our ten largest financing and leasing asset accounts in the aggregate represented 4.5% of our total financing and leasing assets at December 31, 1998, and 4.2% at December 31, 1997. All ten accounts were commercial accounts and were secured by equipment, accounts receivable and/or inventory.

Geographic Composition

The following table presents our financing and leasing assets by customer location.

At December 31,	1998		1997	
	Amount	Percent	Amount	Percent
Dollars in Millions				
United States				
West	$ 5,583.2	23.6%	$ 4,642.1	23.3%
Northeast	5,143.9	21.7	4,501.9	22.6
Midwest	4,895.3	20.7	4,290.0	21.5
Southeast	3,492.3	14.7	2,802.9	14.0
Southwest	2,993.3	12.6	2,360.7	11.8
Foreign (principally commercial aircraft)	1,591.4	6.7	1,361.7	6.8
Total	$23,699.4	100.0%	$19,959.3	100.0%

Our managed asset geographic diversity does not differ significantly from our owned asset geographic diversity.

Additionally, our financing and leasing asset portfolio is diversified by state. At December 31, 1998, with the exception of California (12.5%), Texas (8.7%), and New York (8.1%), no state represented more than 4.6% of financing and leasing assets. Our 1996 managed and owned asset geographic composition did not significantly differ from our 1997 managed and owned asset geographic composition.

Industry Composition

The following table presents our financing and leasing assets by major industry class.

At December 31,	1998		1997	
	Amount	Percent	Amount	Percent
Dollars in Millions				
Manufacturing (1) (none greater than 4.4%)	$ 5,117.0	21.6%	$ 4 ,440.4	22.2%
Commercial airlines (2)	2,325.4	9.8	2,077.6	10.4
Home mortgage (3)	2,244.4	9.5	1,992.3	10.0
Construction equipment	1,947.4	8.2	1,791.4	9.0
Retail	1,882.1	7.9	1,807.5	9.1
Transportation (4)	1,777.6	7.5	1,283.7	6.4
Manufactured housing (5)	1,417.5	6.0	1,125.7	5.6
Other (none greater than 4.1%) (6)	6,988.0	29.5	5,440.7	27.3
Total	$23,699.4	100.0%	$19,959.3	100.0%

(1) Includes manufacturers of steel and metal products, textiles and apparel, printing and paper products, and other industries.
(2) See "Concentrations" for a discussion of the commercial airline portfolio.
(3) On a managed asset basis, home mortgage outstandings were $2.9 billion, or 10.9% of managed assets at December 31, 1998, compared to $2.4 billion or 10.9% at December 31, 1997.
(4) Includes rail, bus, and over-the-road trucking industries, and business aircraft.
(5) On a managed asset basis, manufactured housing outstandings were $1.7 billion or 6.5% of managed assets at December 31, 1998, compared to $1.5 billion or 6.5% at December 31, 1997.
(6) On a managed asset basis, recreation vehicle outstandings were $1.9 billion or 7.2% of managed assets at December 31, 1998, compared to $1.6 billion or 7.2% at December 31, 1997. On a managed asset basis, recreational boat outstandings were $1.0 billion or 4.0% of managed assets at December 31, 1998, compared to $682.5 million or 3.1% of managed assets at December 31, 1997.

Our 1996 managed and owned asset industry composition did not differ significantly from our 1997 managed and owned asset industry composition.

Concentrations

Commercial Airline Industry

Commercial airline financing and leasing assets totaled $2.3 billion (9.8% of our total financing and leasing assets) at December 31, 1998, compared with $2.1 billion (10.4%) in 1997. This portfolio is secured by commercial aircraft and related equipment. From 1992 through mid-1997, we limited the growth of the aerospace portfolio due to weakness in the commercial airline industry, industry overcapacity and declining equipment values. In 1997, we decided to resume growing the aerospace portfolio, but will continue to monitor this growth relative to our total financing and leasing assets. We continue to reduce our Stage II exposure so that 96.6% of our portfolio at December 31, 1998 consists of Stage III aircraft versus 93.1% at December 31, 1997.

The following table presents information about the commercial airline industry portfolio. See also "—Operating Lease Equipment."

At December 31, Dollars in Millions	1998	1997
Finance receivables		
Amount outstanding [(1)]	$1,230.7	$1,254.9
Number of obligors	54	54
Operating lease equipment, net		
Net carrying value	$1,094.7	$ 822.7
Number of obligors	33	33
Total	$2,325.4	$2,077.6
Number of obligors [(2)]	65	67
Number of aircraft [(3)]	206	225

(1) Includes accrued rents on operating leases that are classified as finance receivables in the Consolidated Balance Sheets.

(2) Certain obligors are obligors under both finance receivable and operating lease transactions.

(3) Regulations established by the Federal Aviation Administration (the "FAA") limit the maximum permitted noise an aircraft may make. A Stage III aircraft meets a more restrictive noise level requirement than a Stage II aircraft. The FAA has issued rules that phase out the use of Stage II aircraft in the United States by the year 2000. Similar restrictions in Europe phase out the use of Stage II aircraft by the year 2001. At year-end 1998, the portfolio consisted of Stage III aircraft of $2,246.0 million (96.6%) and Stage II aircraft of $55.9 million (2.4%) versus Stage III aircraft of $1,933.5 million (93.1%) and Stage II aircraft of $115.7 million (5.6%) at year-end 1997.

We continue to shift our commercial aircraft product mix from secured financings to operating lease equipment, relying on our strong industry and equipment management and remarketing expertise to compete effectively in commercial aircraft operating lease transactions. Operating lease transactions accounted for 47.1% of the total commercial airline portfolio outstandings at December 31, 1998, 39.6% at December 31, 1997, and 32.7% at December 31, 1996.

Foreign Outstandings

We are primarily a domestic lender, with foreign exposure limited mainly to the commercial airline industry. Financing and leasing assets to foreign obligors were all U. S. dollar denominated and totaled $1.6 billion at December 31, 1998. The largest exposures at December 31, 1998 were to obligors in Belgium, $142.4 million (0.60% of financing and leasing assets), France, $136.4 million (0.58%), Mexico, $104.1 million (0.44%), the Republic of Ireland, $103.9 million (0.44%), Canada, $100.5 million (0.42%), Brazil, $93.9 million (0.40%), England, $93.0 million (0.39%), and the Netherlands, $90.3 million (0.38%). Our remaining foreign exposure was geographically dispersed, with no other individual country exposure greater than $90.0 million.

At December 31, 1997, financing and leasing assets to foreign obligors totaled $1.4 billion. The largest exposures at December 31, 1997 were to obligors in Mexico, $128.2 million (0.64%), France, $125.9 million (0.63%), the Republic of Ireland, $108.9 million (0.55%), England, $91.7 million (0.46%), and Australia, $90.6 million (0.46%). The remaining foreign exposure was geographically dispersed with no other individual country exposure greater than $90.0 million of financing and leasing assets. At December 31, 1996, foreign exposure was geographically dispersed with no individual country exposure greater than 0.76% of financing and leasing assets.

Highly Leveraged Transactions ("HLTs")

We use the following criteria to classify a buyout financing or recapitalization which equals or exceeds $20 million as an HLT:

- The transaction at least doubles the borrower's liabilities and results in a leverage ratio (as defined) higher than 50%, or
- The transaction results in a leverage ratio higher than 75%, or
- The transaction is designated as an HLT by a syndication agent.

HLTs that we originated or in which we participated totaled $561.1 million (2.4% of financing and leasing assets) at December 31, 1998, up from $341.1 million (1.7%) at December 31, 1997. The increase in HLT outstandings during the year ended December 31, 1998 was due to new originations. Our HLT outstandings are generally secured by collateral, as distinguished from HLTs that rely primarily on cash flows from operations. Our unfunded commitments to lend in secured HLT transactions were $287.6 million at December 31, 1998, compared with $165.5 million at year-end 1997. At December 31, 1996, HLT's that we originated or in which we participated totaled less than 2.0% of financing and leasing assets.

Risk Management

Our business activities contain elements of risk. We consider the principal types of risk to be credit risk (including credit, collateral and equipment risk) and asset/liability risk (including interest rate and liquidity risk).

We consider the management of risk essential to conducting our commercial and consumer businesses and to maintaining profitability. Accordingly, our risk management systems and procedures are designed to identify and analyze risks, to set appropriate policies and limits and to continually monitor these risks and limits by means of reliable administrative and information systems and other policies and programs.

Credit Risk Management

We have developed systems specifically designed to manage credit risk in our commercial and consumer business segments. We evaluate financing and leasing assets for credit and collateral risk during the credit granting process and periodically after the advancement of funds.

Our Executive Credit Committee ("ECC") delegates credit authority to each of our strategic business units. The ECC is comprised of members of senior management, including the Chief Executive Officer, Vice Chairman, Executive Vice President—Credit Administration, Senior Executive Vice President and Executive Vice President—Multi-National Marketing Group. Generally, members of the ECC must approve all transactions above the strategic business units' credit authority and all transactions outside of certain established target market definitions and risk acceptance criteria.

Each of our strategic business units has developed and implemented a formal credit management process in accordance with formal uniform guidelines established by the ECC. These ECC guidelines set forth risk acceptance criteria for:

- Acceptable maximum credit line;
- Selected target markets and products;
- Creditworthiness of borrowers, including credit history, financial condition, adequacy of cash flow and quality of management; and
- The type and value of underlying collateral and guarantees (including recourse from dealers and manufacturers.)

We also employ a risk adjusted pricing process where the perceived credit risk is a factor in determining the interest rate and/or fees charged for our financing and leasing products. As economic and market conditions change, credit risk management practices are reviewed and modified, if necessary, to seek to minimize the risk of credit loss.

Compliance with established corporate policies and procedures and the credit management processes at each strategic business unit are reviewed by the credit audit group of our internal audit department. The credit audit group examines adherence with established credit policies and procedures and tests for inappropriate credit practices, including whether potential problem accounts are being detected and reported on a timely basis. The General Auditor, who oversees the credit audit group, reports to the Chief Executive Officer of CIT and to the Audit Committee.

Commercial

We have developed systems specifically designed to effectively manage credit risk in our two commercial segments. The process starts with the initial evaluation of credit risk and underlying collateral at the time of origination and continues over the life of the finance receivable or operating lease, including collecting past due balances and liquidating underlying collateral.

Credit personnel of the applicable strategic business unit review each potential borrower's financial condition, results of operations, management, industry, customer base, operations, collateral and other data, such as third party credit reports, to thoroughly evaluate the customer's borrowing and repayment ability. Borrowers are graded according to credit quality based upon our uniform credit grading system, which grades both the borrower's financial condition and the underlying collateral. Credit facilities are subject to approval within our overall credit approval and underwriting guidelines and are issued commensurate with the credit evaluation performed on each borrower.

We review and monitor credit exposures on an ongoing basis to identify, as early as possible, those customers that may be experiencing declining creditworthiness or financial difficulty. We periodically evaluate our commercial segments' finance receivables based upon credit criteria developed under our uniform credit grading system. We monitor concentrations by borrower, industry, geographic region and equipment type and management adjusts limits as conditions warrant to seek to minimize the risk of credit loss.

Our Asset Quality Review Committee is comprised of members of senior management, including the Vice Chairman, the Executive Vice President—Credit Administration and the Chief Financial Officer. Periodically, the Committee will meet with the President and CEO of CIT to review, among other topics, levels of geographic, industry and customer concentrations. In addition, the Committee periodically meets with senior executives of our strategic business units and reviews the status of finance and leasing assets greater than $500,000 to obligors with higher risk profiles.

Consumer

For consumer loans, our management has developed and implemented proprietary automated credit scoring models for each loan type (e.g., recreation vehicles, manufactured housing, recreational boat and home equity) that include both customer demographics and credit bureau characteristics. The profiles emphasize, among other things, occupancy status, length of residence, length of employment, debt to income ratio (ratio of total installment debt and housing expenses to gross monthly income), bank account references, credit bureau information and combined loan to value ratio. The models are used to assess a potential borrower's credit standing and repayment ability considering the value or adequacy of property offered as collateral. Our credit criteria includes reliance on credit scores, including those based upon both our proprietary internal credit scoring model and external credit bureau scoring, combined with judgment. The credit scoring models are regularly reviewed for effectiveness utilizing statistical tools. We regularly evaluate the consumer loan portfolio using past due, vintage curve and other statistical tools to analyze trends and credit performance by loan type, including analysis of specific credit characteristics and other selected subsets of the portfolios. Adjustments to credit scorecards and lending programs are made when deemed appropriate. Individual underwriters are assigned credit authority based upon their experience, performance and understanding of the underwriting policies and procedures of our consumer operations and a credit approval hierarchy exists to ensure that all applications are reviewed by an underwriter with the appropriate level of authority.

See — "Reserve and Provision for Credit Losses/Credit Quality".

Asset/Liability Management

Management strives to manage interest rate and liquidity risk and optimize net finance income under formal policies established and monitored by the Capital Committee. The Capital Committee is comprised of members of senior management, including the Chief Executive Officer, the Vice Chairman, and the Chief Financial Officer. Three members of the Capital Committee are also members of our Board of Directors. The Capital Committee establishes and regularly reviews interest rate sensitivity, funding needs, liquidity, and asset-pricing to determine short-term and long-term funding strategies, including the use of off-balance sheet derivative financial instruments.

We use off-balance sheet derivatives for hedging purposes only, and do not enter into derivative financial instruments for trading or speculative purposes. To ensure both appropriate use as a hedge and hedge accounting treatment, all derivatives entered into are designated, according to the applicable hedge objective, against commercial paper, a specifically underwritten debt issue, or a specific pool of assets. Our primary hedge objectives include the conversion of variable rate liabilities to fixed rates, the conversion of fixed rate liabilities to variable rates, the fixing of spreads on variable rate liabilities to various market indices and the elimination of interest rate risk on finance receivables classified as held for sale prior to securitization.

We manage our derivative positions so that the exposure to interest rate, credit or foreign exchange risk is in accordance with the overall operating goals established by our Capital Committee. There is an approved, diversified list of creditworthy counterparties used for derivative financial instruments, each of whom has specific credit exposure limits, which are based on market value. The Executive Credit Committee approves each counterparty and its related market value and credit exposure limit annually, or more frequently if any changes are recommended. Credit exposures for each counterparty are measured based upon market value of the outstanding derivative instruments. Market values are calculated periodically for each swap contract, summarized by counterparty and reported to the Capital Committee. For additional information regarding our derivative portfolio, refer to "Note 7—Derivative Financial Instruments".

Interest Rate Risk Management

Changes in market interest rates, or in the relationships between short-term and long-term market interest rates, or in the relationships between different interest rate indices (i.e., basis risk), can affect the interest rates charged on interest-earning assets differently than the interest rates paid on interest-bearing liabilities, which can result in an increase in interest expense relative to finance income.

Our Capital Committee actively manages interest rate risk by changing the proportion of fixed and floating rate debt and by utilizing primarily interest rate swaps and, to a lesser extent, other derivative instruments to modify the repricing characteristics of existing interest-bearing liabilities. Issuing new debt or hedging the interest rate on existing debt through the use of interest rate swaps and other derivative instruments are both tools in managing interest rate risk. The decision to use one or the other or a combination of both is driven by the relationship between the relative interest rate costs and effectiveness of the alternatives, and our liquidity needs. For example, a fixed rate, fixed term loan transaction may initially be funded by commercial paper, resulting in interest rate risk. To reduce this risk, we may enter into a hedge that has an inverse correlation to the interest rate sensitivity created, whereby we would pay a fixed interest rate and receive a commercial paper interest rate, thereby matching the fixed rate, fixed term loan with fixed rate, fixed term debt. Basis risk is similarly managed through the issuance of new debt or the utilization of interest rate swaps or other derivative instruments.

We continuously monitor and simulate through computer modeling our degree of interest rate sensitivity by measuring the repricing characteristics of interest-sensitive assets, liabilities, and off-balance sheet derivatives. The Capital Committee reviews the results of this modeling monthly. The interest rate sensitivity modeling techniques employed by us essentially include the creation of prospective twelve month "baseline" and "rate shocked" net interest income simulations. At the date that interest rate sensitivity is modeled, "baseline" net interest income is derived considering the current level of interest-sensitive assets and related run-off (including both contractual repayment and historical prepayment experience), the current level of interest-sensitive liabilities and related maturities and the current level of off-balance sheet derivatives. The "baseline" simulation assumes that, over the next successive twelve months, market interest rates (as of the date of simulation) are held constant and that no new loans are extended. Once the "baseline" net interest income is calculated, market interest rates, which were previously held constant, are raised 100 basis points instantaneously and parallel across the entire yield curve, and a "rate shocked" simulation is run. Interest rate sensitivity is then measured as the difference between calculated "baseline" and "rate shocked" net interest income.

Utilizing our computer modeling, if no new fixed rate loans or leases were extended and no actions to alter the existing interest rate sensitivity were taken subsequent to December 31, 1998, an immediate hypothetical 100 basis point parallel rise in the yield curve on January 1, 1999 would increase net income by an estimated $3.4 million after-tax over the next twelve months. Although management believes that this measure provides a meaningful estimate of our interest rate sensitivity, it does not adjust for potential changes in the credit quality, size, composition and prepayment characteristics of the balance sheet and other business developments that could affect net income. Accordingly, no assurance can be given that actual results would not differ materially from the potential outcome simulated by our computer modeling. Further, it does not necessarily represent management's current view of future market interest rate movements.

We periodically enter into structured financings (involving both the issuance of debt and an interest rate swap with corresponding notional principal amount and maturity) that not only improve liquidity and reduce interest rate risk, but result in a lower overall funding cost than could be achieved by solely issuing debt. For example, in order to fund fixed rate assets, a medium-term variable rate note based upon the U. S. federal funds rate can be issued and coupled with an interest rate swap exchanging the U. S. federal funds rate for a fixed interest rate. This creates, in effect, a lower cost fixed rate medium-term obligation.

Interest rate swaps with notional principal amounts of $4.3 billion at December 31, 1998 and $3.6 billion at December 31, 1997 were designated as hedges against outstanding debt and were principally used to, in effect, convert the interest rate on variable rate debt to a fixed rate that sets our fixed rate term debt borrowing cost over the life of the swap. These hedges reduce our exposure to rising interest rates, but also reduce the benefits from lower interest rates.

A comparative analysis of the weighted average principal outstanding and interest rates paid on our debt before and after the effect of interest rate swaps is shown in the following table.

Before Swaps						
At December 31,	1998		1997		1996	
Dollars in Millions						
Commercial paper and variable rate senior notes	$ 9,672.6	5.53%	$ 9,574.2	5.61%	$ 9,952.2	5.48%
Fixed rate senior and subordinated notes	7,476.5	6.31%	5,497.6	6.52%	3,917.0	6.83%
Composite	$17,149.1	5.87%	$15,071.8	5.94%	$13,869.2	5.86%

After Swaps						
At December 31,	1998		1997		1996	
Dollars in Millions						
Commercial paper and variable rate senior notes	$ 7,069.9	5.47%	$ 6,443.2	5.54%	$ 6,774.3	5.42%
Fixed rate senior and subordinated notes	10,079.2	6.39%	8,628.6	6.52%	7,094.9	6.68%
Composite	$17,149.1	6.01%	$15,071.8	6.10%	$13,869.2	6.06%

Our interest rate swaps principally convert floating rate debt to fixed rate debt. The weighted average composite interest rate after swaps increased from the composite interest rate before swaps in each period, primarily because a larger proportion of our debt, after giving effect to interest rate swaps, was subject to a fixed interest rate. However, the weighted average interest rates before swaps do not necessarily reflect the interest expense that would have been incurred had we chosen to manage interest rate risk without the use of such swaps.

Interest rate swaps are further discussed in "Note 7—Derivative Financial Instruments".

Liquidity

We manage liquidity risk by monitoring the relative maturities of assets and liabilities and by borrowing funds, primarily in the U. S. money and capital markets. We use such cash to fund asset growth (including the bulk purchase of finance receivables and the acquisition of other finance-related businesses) and to meet debt obligations and other commitments on a timely and cost-effective basis. The primary sources of funding are commercial paper borrowings, medium-term notes, other debt securities, and asset-backed securitizations.

Commercial paper outstanding increased $584.5 million to $6.1 billion at December 31, 1998 from $5.6 billion at December 31, 1997. During 1998, we issued $3.9 billion of variable rate term debt and $3.0 billion of fixed rate term debt. Repayments of debt totaled $4.1 billion for 1998. At December 31, 1998, $4.8 billion of registered, but unissued, debt securities remained available under shelf registration statements, including $2.0 billion of European Medium-Term Notes.

Our commercial paper, publicly issued variable rate and fixed rate senior debt, and senior subordinated long-term notes and debentures are rated by Moody's Investors Service, Duff & Phelps Credit Rating Company and Standard & Poor's Corporation. At December 31, 1998, commercial paper borrowings were supported by $5.0 billion of committed revolving credit-line facilities. At December 31, 1998, such credit-line facilities represented 81% of operating commercial paper outstanding (commercial paper outstanding less interest-bearing deposits), as compared to 91% at December 31, 1997.

As part of our continuing program of accessing the public and private asset-backed securitization markets as an additional liquidity source, recreation vehicle, recreational boat, and home equity finance receivables of $866.0 million were securitized during 1998. We securitized recreation vehicle, home equity and recreational boat finance receivables of $1.4 billion in 1997. The decrease in securitization activity from 1997 to 1998 was primarily due to less attractive market conditions.

At December 31, 1998, we had $2.0 billion of registered, but unissued, securities available under shelf registration statements relating to our asset-backed securitization program. In February 1999, we securitized $424.3 million of recreational boat receivables included in assets held for sale at December 31, 1998.

Capitalization

The following table presents information regarding our capital structure.

At December 31, Dollars in Millions	1998	1997
Commercial paper	$ 6,144.1	$ 5,559.6
Term debt	12,507.3	9,755.3
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	250.0	250.0
Stockholders' equity	2,701.6	2,432.9
Total capitalization	$21,603.0	$17,997.8
Total debt to stockholders' equity and Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	6.32x	5.71x
Total debt and Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company to stockholders' equity	7.00x	6.40x

The Company-obligated mandatorily redeemable preferred securities are 7.70% Preferred Capital Securities of CIT Capital Trust I, a wholly-owned subsidiary of ours. CIT Capital Trust I invested the proceeds of that issue in Junior Subordinated Debentures of CIT having identical rates and payment dates.

In November 1998, The Dai-Ichi Kangyo Bank, Limited ("DKB") sold 55,000,000 shares of Class A Common Stock in a secondary public offering (the "Secondary Offering") for which it received all the proceeds. Prior to the sale, DKB converted all of its Class B Common Stock into an identical number of shares of Class A Common Stock, which is now the only class of common stock outstanding. DKB held 94.4% of the combined voting power and 77.2% of the economic interest of all of our outstanding common stock prior to the sale. At December 31, 1998, DKB held 43.8% of the voting power and economic interest of our outstanding common stock.

In November 1997, we issued 36,225,000 shares of Class A Common Stock in the IPO. Prior to the IPO, DKB owned 80% of our issued and outstanding stock, and The Chase Manhattan Corporation ("Chase") owned the remaining 20% common stock interest. DKB had an option expiring December 15, 2000 to purchase the remaining 20% common stock interest from Chase. In November 1997, we purchased DKB's option at its fair market value, exercised the option to purchase the stock held by Chase and recapitalized by converting the outstanding common stock to 157,500,000 shares of Class B Common Stock. Twenty percent of the Class B Common Stock shares (which had five votes per share) were converted to Class A Common Stock shares (which has one vote per share) and, in addition to an underwriter's overallotment option, were issued in the IPO. The issuance of Class A Common Stock pursuant to the underwriter's overallotment resulted in an increase in stockholders' equity of $117.7 million.

Recent Accounting Pronouncements

In 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement standardizes the accounting for derivative instruments and hedging activities, including certain derivative instruments embedded in other contracts. Under the standard, entities are required to carry all derivative instruments in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it.

If certain conditions are met, entities may elect to designate a derivative instrument as a hedge of exposures to changes in fair values, cash flows, or foreign currencies. If the hedged exposure is a fair value exposure, the gain or loss on the derivative instrument is recognized in earnings in the period of change together with the offsetting gain or loss on the hedged item attributable to the risk being hedged. If the hedged exposure is a cash flow exposure, the effective portion of the gain or loss on the derivative instrument is reported initially as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. If the hedged exposure is a foreign currency exposure, the gain or loss on the derivative instrument is reported in other comprehensive income as part of the cumulative translation adjustment. For a derivative not designated as a hedging instrument, the gain or loss is recognized in earnings in the period of change. SFAS 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. We have not yet determined the impact of SFAS 133. However, we anticipate that adoption of the statement will not have a material impact on our financial position or results of operations.

Year 2000 Compliance

Institutions around the world are reviewing and modifying their computer systems to ensure they are Year 2000 compliant. The issue, in general terms, is that many existing computer systems, both information technology systems and non-information technology systems, contain date-based functions which use only two digits to identify a year in the date field with the assumption that the first two digits of the year are always "19". Consequently, on January 1, 2000, systems that are not Year 2000 compliant may read the year as 1900. Systems that calculate, compare or sort using the incorrect date may malfunction.

We continue to address the Year 2000 issue as it relates to our systems and business. We have developed a comprehensive Year 2000 project to remediate our information technology ("IT") systems and to address Year 2000 issues in our non-IT systems. The process of remediation includes the following phases:

- Planning
- Assessing
- Designing (as necessary)
- Programming (as necessary)
- Testing and validation

We have categorized our IT systems as high, medium or low priority with respect to our ability to conduct business. As of December 31, 1998, we had successfully completed:

- the planning, assessing and designing phases for all of our IT systems
- the programming phase for 97% of our high and medium priority IT systems and 96% of all our IT systems
- the testing and validation phase for 96% of our high and medium priority IT systems and 92% of all our IT systems.

We estimate that, at December 31, 1998, our Year 2000 project was approximately 94% completed for our high and medium priority IT systems and 91% completed with respect to all our IT systems. Our Year 2000 project remains on schedule to be completed by the end of the first quarter of 1999.

A majority of the software used in our IT systems is provided by outside vendors. As of December 31, 1998, approximately 97% of our vendor provided software or software upgrades have been designated by the software vendors as Year 2000 compliant. We implemented a Year 2000 contingency plan which now addresses the 3% of our vendor provided software which has not yet met our Year 2000 compliance deadlines.

In addition, we continue to formulate a contingency plan for business continuation in the event of Year 2000 systems failures. This contingency plan formulation is based upon our existing disaster recovery and business continuity plans with modifications for Year 2000 risks. We expect to complete our IT systems Year 2000 contingency plan by June 30, 1999 and to test this contingency plan thereafter.

Our non-IT systems used to conduct business at our facilities consist primarily of office equipment (other than computer and communications equipment) and other equipment at our leased office facilities. We have inventoried our non-IT systems and have sent Year 2000 questionnaires to our office equipment vendors and landlords to determine the status of their Year 2000 readiness.

Since 1997, we have been actively communicating with third parties concerning the status of their Year 2000 readiness by, among other things, sending written Year 2000 inquiries. These third parties include our borrowers, obligors, banks, investment banks, investors, vendors, manufacturers, landlords and suppliers of telecommunication services and other utilities. As part of the process of evaluating our options and attempting to mitigate third party risks, we continue to collect and analyze information from third parties. It is difficult to predict the effect of such third party non-readiness on our business.

Significant Year 2000 failures in our systems or in the systems of third parties (or third parties upon whom they depend) could have a material adverse effect on our financial condition and results of operations. We believe that our reasonably likely worst case Year 2000 scenario is (i) a material increase in our credit losses due to Year 2000 problems for our borrowers and obligors and (ii) disruption in financial markets causing liquidity stress to us. The amount of these potential credit losses or the degree of disruption cannot be determined at this time.

During the first quarter of 1999, we will continue with the remediation and testing of our IT systems, further evaluate third party Year 2000 risks, continue to develop contingency plans and take further steps designed to reduce our exposure to these risks.

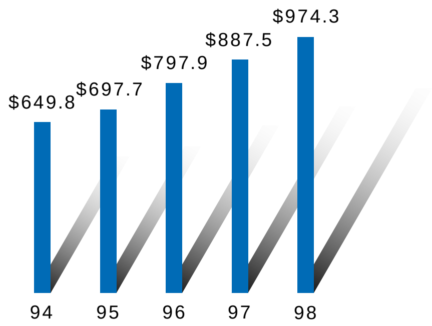
The total cost of our Year 2000 project is expected to be approximately $8 million, of which approximately $5.5 million has been incurred through December 31, 1998. This amount includes the costs of additional hardware, software and technology consultants, as well as the cost of our systems professionals dedicated to achieving Year 2000 compliance for IT systems. We have included the cost of the Year 2000 project in our annual budgets for information technology. We have postponed some non-Year 2000 IT expenditures and initiatives until after 2000 in order to concentrate resources on the Year 2000 issue. We do not expect that this will have a material adverse effect on our financial condition and results of operations.

All Year 2000 information provided herein is a "Year 2000 Readiness Disclosure" as defined in the Year 2000 Information and Readiness Disclosure Act and is subject to the terms thereof. This Year 2000 information is provided pursuant to securities law requirements and it may not be taken as a form of covenant, warranty, representation or guarantee of any kind.

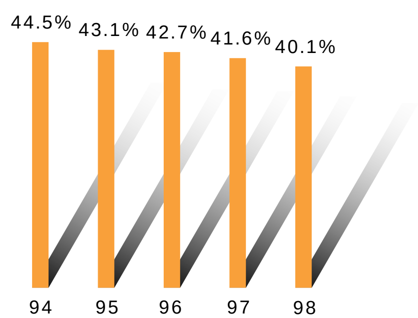
Selected Financial Data

Net Finance Income

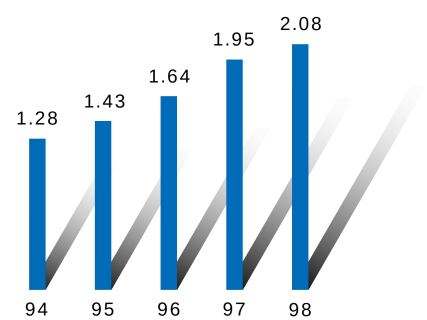
In millions



Efficiency Ratio



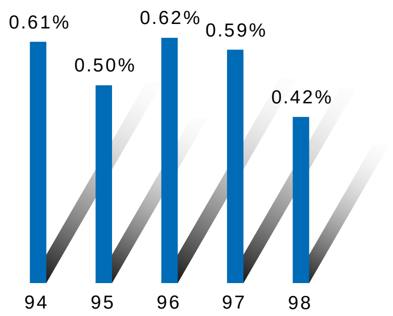
Net Income per Diluted Share



At or for the Years Ended December 31, Dollars in Millions, except per share data	1998	1997	1996	1995	1994
Results of Operations					
Net finance income	$ 974.3	$ 887.5	$ 797.9	$ 697.7	$ 649.8
Operating revenue	1,229.7	1,193.3[1]	1,042.0	882.4	824.2
Salaries and general operating expenses	417.8	428.4	393.1	345.7	337.9
Provision for credit losses	99.4	113.7	111.4	91.9	96.9
Net income	338.8	310.1	260.1	225.3	201.1
Net income per diluted share	2.08	1.95	1.64	1.43	1.28
Balance Sheet Data					
Finance receivables:					
Commercial	$15,589.1	$ 14,054.9	$ 13,757.6	$ 13,451.5	$ 12,821.2
Consumer	4,266.9	3,664.8	3,239.0	2,344.0	1,973.2
Total finance receivables	$19,856.0	$ 17,719.7	$ 16,996.6	$ 15,795.5	$ 14,794.4
Reserve for credit losses	263.7	235.6	220.8	206.0	192.4
Operating lease equipment, net	2,774.1	1,905.6	1,402.1	1,113.0	867.9
Total assets	24,303.1	20,464.1	18,932.5	17,420.3	15,959.7
Commercial paper	6,144.1	5,559.6	5,827.0	6,105.6	5,660.2
Variable rate senior notes	4,275.0	2,861.5	3,717.5	3,827.5	3,812.5
Fixed rate senior notes	8,032.3	6,593.8	4,761.2	3,337.0	2,619.4
Subordinated fixed rate notes	200.0	300.0	300.0	300.0	300.0
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	250.0	250.0	–	–	–
Stockholders' equity	2,701.6	2,432.9	2,075.4	1,914.2	1,793.0
Selected Data and Ratios					
Profitability					
Net interest margin as a percentage of average earning assets ("AEA")[2]	4.75%	4.87%	4.82%	4.54%	4.77%
Return on average stockholders' equity	13.2%	14.0%[5]	13.0%	12.1%	11.5%
Return on AEA[2]	1.65%	1.70%[5]	1.57%	1.46%	1.48%
Ratio of earnings to fixed charges	1.49x	1.51x	1.49x	1.44x	1.52x
Salaries and general operating expenses as a percentage of average managed assets ("AMA")[3]	1.82%	2.16%[5]	2.22%	2.16%	2.44%
Efficiency ratio[4]	40.1%	41.6%[5]	42.7%	43.1%	44.5%

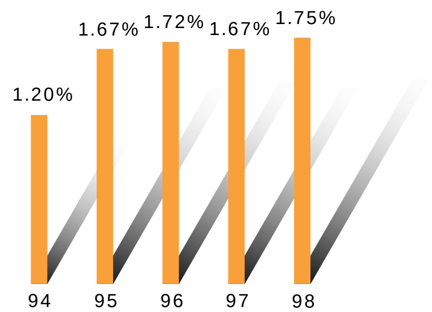
Net Credit Losses

As a % of AFR

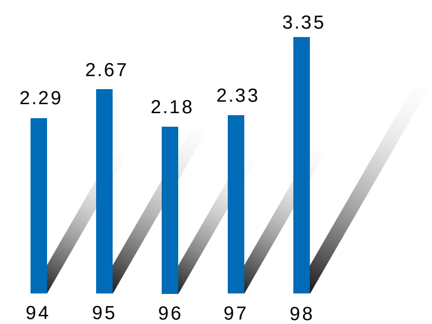


Past Due Finance Receivables

60 Days or More in %



Ratio of Reserve for Credit Losses to Trailing 12 Months Net Credit Losses



At or for the Years Ended December 31,	1998	1997	1996	1995	1994
Credit Quality					
60+ days contractual delinquency as a percentage of finance receivables	1.75%	1.67%	1.72%	1.67%	1.20%
Net credit losses as a percentage of average finance receivables	0.42%	0.59%	0.62%	0.50%	0.61%
Reserve for credit losses as a percentage of finance receivables	1.33%	1.33%	1.30%	1.30%	1.30%
Ratio of reserve for credit losses to trailing 12 months net credit losses	3.35x	2.33x	2.18x	2.67x	2.29x
Leverage					
Total debt to stockholders' equity and Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	6.32x	5.71x	7.04x	7.09x	6.91x
Total debt to stockholders' equity(6)	7.00x	6.40x	7.04x	7.09x	6.91x
Other					
Total managed assets (in millions)(7)	$26,216.3	$ 22,344.9	$ 20,005.4	$ 17,978.6	$ 16,072.1
Employees	3,230	3,025	2,950	2,750	2,700

(1) Includes a 1997 gain of $58.0 million on the sale of an equity interest acquired in connection with a loan workout.

(2) "AEA" means the average of finance receivables, operating lease equipment, consumer finance receivables held for sale and certain investments, less credit balances of factoring clients.

(3) "AMA" means average earning assets plus the average of consumer finance receivables previously securitized and currently managed by us.

(4) Efficiency ratio reflects the ratio of salaries and general operating expenses to the sum of operating revenue less depreciation of operating lease equipment and minority interest in subsidiary trust holding solely debentures of the Company.

(5) Excluding the gain of $58.0 million on the sale of an equity interest acquired in a loan workout and certain nonrecurring expenses, (i) the return on average stockholders' equity would have been 13.1% for the year ended December 31, 1997, (ii) the return on AEA would have been 1.58% for the year ended December 31, 1997, (iii) the efficiency ratio would have been 42.0% for the year ended December 31, 1997 and (iv) salaries and general operating expenses as a percentage of AMA would have been 2.06% for the year ended December 31, 1997.

(6) Total debt includes, and stockholders' equity excludes, $250.0 million of Company–obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company issued in February 1997.

(7) "Managed assets" include (i) financing and leasing assets and (ii) off–balance sheet consumer finance receivables previously securitized and currently managed by us.

Consolidated Balance Sheets

The CIT Group, Inc. and Subsidiaries

December 31, Dollars in Millions	1998	1997
Assets		
Financing and leasing assets		
Loans		
Commercial	$ 11,415.5	$ 10,342.5
Consumer	4,266.9	3,664.8
Lease receivables	4,173.6	3,712.4
Finance receivables (Note 3)	19,856.0	17,719.7
Reserve for credit losses (Note 4)	(263.7)	(235.6)
Net finance receivables	19,592.3	17,484.1
Operating lease equipment, net (Note 5)	2,774.1	1,905.6
Consumer finance receivables held for sale	987.4	268.2
Cash and cash equivalents	73.6	140.4
Other assets (Notes 14 and 19)	875.7	665.8
Total assets	$ 24,303.1	$ 20,464.1
Liabilities and Stockholders' Equity		
Debt (Notes 6 and 7)		
Commercial paper	$ 6,144.1	$ 5,559.6
Variable rate senior notes	4,275.0	2,861.5
Fixed rate senior notes	8,032.3	6,593.8
Subordinated fixed rate notes	200.0	300.0
Total debt	18,651.4	15,314.9
Credit balances of factoring clients	1,302.1	1,202.6
Accrued liabilities and payables (Notes 12 and 14)	694.3	660.1
Deferred federal income taxes (Note 12)	703.7	603.6
Total liabilities	21,351.5	17,781.2
Company–obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company (Note 8)	250.0	250.0
Stockholders' equity (Notes 1 and 9)		
Class A common stock, par value $0.01 per share; Authorized: 700,000,000 shares Issued: 163,144,879 shares in 1998 and 37,173,527 shares in 1997 Outstanding: 162,176,949 shares in 1998 and 37,173,527 shares in 1997	1.7	0.4
Class B common stock, par value $0.01 per share, 510,000,000 shares authorized and in 1997 126,000,000 issued and outstanding	–	1.3
Paid–in capital	952.5	948.3
Retained earnings	1,772.8	1,482.9
Treasury stock at cost (967,930 shares; Class A)	(25.4)	–
Total stockholders' equity	2,701.6	2,432.9
Total liabilities and stockholders' equity	$ 24,303.1	$ 20,464.1

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

The CIT Group, Inc. and Subsidiaries

Years Ended December 31, Dollars in Millions (except per share amounts)	1998	1997	1996
Finance income	$ 2,015.1	$ 1,824.7	$ 1,646.2
Interest expense	1,040.8	937.2	848.3
Net finance income	974.3	887.5	797.9
Fees and other income (Note 10)	255.4	247.8	244.1
Gain on sale of equity interest acquired in loan workout	–	58.0	–
Operating revenue	1,229.7	1,193.3	1,042.0
Salaries and general operating expenses (Notes 11, 14 and 15)	417.8	428.4	393.1
Provision for credit losses (Note 4)	99.4	113.7	111.4
Depreciation on operating lease equipment (Note 5)	169.5	146.8	121.7
Minority interest in subsidiary trust holding solely debentures of the Company (Note 8)	19.2	16.3	–
Operating expenses	705.9	705.2	626.2
Income before provision for income taxes	523.8	488.1	415.8
Provision for income taxes (Note 12)	185.0	178.0	155.7
Net income	$ 338.8	$ 310.1	$ 260.1
Net income per basic share (Note 13)	$ 2.09	$ 1.96	$ 1.65
Net income per diluted share (Note 13)	$ 2.08	$ 1.95	$ 1.64

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

The CIT Group, Inc. and Subsidiaries

Dollars in Millions	Common Stock	Class A Common Stock	Class B Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance, December 31, 1995	$ 250.0			$ 408.3		$ 1,255.9	$ 1,914.2
Net income						260.1	260.1
Cash dividends – regular						(98.9)	(98.9)
Cash dividends – special						(165.0)	(165.0)
Capital contribution				165.0			165.0
Balance, December 31, 1996	250.0			573.3		1,252.1	2,075.4
Net income						310.1	310.1
Cash dividends						(79.3)	(79.3)
Recapitalization to Class B common stock shares (Note 1)	(250.0)		$ 1.6	248.4			0.0
Twenty percent of Class B common shares bought pursuant to option agreement (Note 1)			(0.3)		$ (808.0)		(808.3)
Conversion of Class B treasury stock shares to Class A common stock shares and issuance of Class A to the public (Note 1)		$ 0.3			808.0		808.3
Issuance of underwriter's overallotment of Class A common stock shares, net (Note 1)		0.1		117.6			117.7
Restricted Class A common stock grants (Note 14)				9.0			9.0
Balance, December 31, 1997	0.0	0.4	1.3	948.3	0.0	1,482.9	2,432.9
Net income						338.8	338.8
Cash dividends						(48.9)	(48.9)
Conversion of Class B common stock to Class A common stock shares (Note 1)		1.3	(1.3)				0.0
Repurchase of 967,930 shares of Class A common stock (Note 9)					(25.4)		(25.4)
Costs relating to Class A common stock offering (Note 1)				(1.0)			(1.0)
Restricted Class A common stock grants (Note 14)				5.2			5.2
Balance, December 31, 1998	$ 0.0	$ 1.7	$ 0.0	$ 952.5	$ (25.4)	$ 1,772.8	$ 2,701.6

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The CIT Group, Inc. and Subsidiaries

Years Ended December 31, Dollars in Millions	1998	1997	1996
Cash flows from operations			
Net income	$ 338.8	$ 310.1	$ 260.1
Adjustments to reconcile net income to net cash flows from operations:			
Provision for credit losses	99.4	113.7	111.4
Depreciation and amortization	195.9	168.6	140.3
Provision for deferred federal income taxes	100.2	80.3	54.1
Gains on asset and receivable sales	(75.1)	(137.7)	(78.9)
Increase in accrued liabilities and payables	34.2	66.1	108.1
Increase in other assets	(89.2)	(54.0)	(65.9)
Other	11.0	8.0	(3.7)
Net cash flows provided by operations	615.2	555.1	525.5
Cash flows from investing activities			
Loans extended	(35,818.9)	(33,332.9)	(32,647.2)
Collections on loans	32,463.4	31,419.7	31,132.2
Proceeds from asset and receivable sales	1,381.3	1,747.5	1,144.9
Purchases of assets to be leased	(1,101.7)	(802.8)	(431.2)
Net increase in short–term factoring receivables	(255.4)	(238.8)	(0.3)
Purchases of finance receivables portfolios	(600.0)	(176.6)	(661.3)
Proceeds from sales of assets received in satisfaction of loans	49.2	37.7	76.7
Purchases of investment securities	(36.9)	(27.5)	(20.8)
Other	(31.8)	(23.1)	(25.5)
Net cash flows used for investing activities	(3,950.8)	(1,396.8)	(1,432.5)
Cash flows from financing activities			
Proceeds from the issuance of variable and fixed rate notes	6,863.5	4,532.7	4,776.0
Repayments of variable and fixed rate notes	(4,111.5)	(3,556.1)	(3,461.8)
Net increase (decrease) in commercial paper	584.5	(267.4)	(278.6)
Proceeds from nonrecourse leveraged lease debt	155.3	43.7	58.1
Repayments of nonrecourse leveraged lease debt	(148.7)	(162.3)	(146.2)
Cash dividends paid	(48.9)	(79.3)	(263.9)
Purchase of treasury stock	(25.4)	–	–
Proceeds from issuance of common stock, net	–	926.0	–
Purchase of Class B common stock pursuant to option agreement	–	(808.3)	–
Proceeds from the issuance of Company–obligated manditorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company	–	250.0	–
Capital contribution from stockholders	–	–	165.0
Net cash flows provided by financing activities	3,268.8	879.0	848.6
Net (decrease) increase in cash and cash equivalents	(66.8)	37.3	(58.4)
Cash and cash equivalents, beginning of year	140.4	103.1	161.5
Cash and cash equivalents, end of year	$ 73.6	$ 140.4	$ 103.1
Supplemental disclosures			
Interest paid	$ 1,021.3	$ 917.5	$ 842.6
Federal and state and local income taxes paid	$ 81.4	$ 102.1	$ 102.5

See accompanying notes to consolidated financial statements.

Note 1—The Company

The CIT Group, Inc. (the "Company"), formerly known as The CIT Group Holdings, Inc., engages in secured commercial and consumer financing and leasing activities through a nationwide distribution network.

In November 1998, The Dai-Ichi Kangyo Bank, Limited ("DKB") sold 55,000,000 shares of Class A Common Stock in a secondary public offering (the "Secondary Offering") for which it received all the proceeds. Prior to the sale, DKB converted all of its Class B Common Stock into an identical number of shares of Class A Common Stock, which is now the only class of common stock outstanding. DKB held 94.4% of the combined voting power and 77.2% of the economic interest of all of the Company's outstanding common stock prior to the sale. At December 31, 1998, DKB held 43.8% of the voting power and economic interest of the Company's outstanding common stock.

In November 1997, the Company issued 36,225,000 shares of Class A Common Stock in an initial public offering (the "IPO"). Prior to the IPO, DKB owned 80% of the Company's issued and outstanding stock, and The Chase Manhattan Corporation ("Chase") owned the remaining 20% common stock interest. DKB had an option expiring December 15, 2000 to purchase the remaining 20% common stock interest from Chase. In November 1997, the Company purchased DKB's option at its fair market value, exercised the option to purchase the stock held by Chase and recapitalized the Company by converting the outstanding common stock to 157,500,000 shares of Class B Common Stock. Twenty percent of the Class B Common Stock shares (which had five votes per share) were converted to Class A Common Stock shares (which has one vote per share) and, in addition to an underwriter's overallotment option, were issued in the IPO. The issuance of Class A Common Stock pursuant to the underwriter's overallotment resulted in an increase to the Company's stockholders' equity of $117.7 million.

Note 2—Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements and accompanying notes include the accounts of The CIT Group, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated. Prior period amounts have been reclassified to conform to the current presentation.

Financing and Leasing Assets

The Company provides funding for a variety of financing arrangements, including term loans, lease financing and operating leases. The amounts outstanding on loans and leases are referred to as finance receivables and, when combined with consumer finance receivables held for sale, net book value of operating lease equipment, and certain investments, represent financing and leasing assets.

Income Recognition

Finance income includes interest on loans, the accretion of income on direct financing leases, and rents on operating leases. Related origination and other nonrefundable fees and direct origination costs are deferred and amortized as an adjustment of finance income over the contractual life of the transactions. Income on finance receivables other than leveraged leases is recognized on an accrual basis commencing in the month of origination using methods that generally approximate the interest method. Leveraged lease income is recognized on a basis calculated to achieve a constant after-tax rate of return for periods in which the Company has a positive investment in the transaction, net of related deferred tax liabilities. Rental income on operating leases is recognized on an accrual basis.

The accrual of finance income on commercial finance receivables is suspended and an account is placed on nonaccrual status when payment of principal or interest is contractually delinquent for 90 days or more, or earlier when, in the opinion of management, full collection of all principal and interest due is doubtful. Given the nature of revolving credit facilities, including those combined with term loan facilities (advances and interest accruals increase revolving loan balances and payments reduce revolving loan balances), the placement of revolving credit facilities on nonaccrual status includes the review of other qualitative and quantitative factors, and generally does not result in the reversal of significant amounts of accrued interest. To the extent the estimated fair value of collateral does not satisfy both the principal and accrued income outstanding, accrued but uncollected income at the date an account is placed on nonaccrual status is reversed and charged against income, though such amounts are generally not significant. Subsequent income received is applied to the outstanding principal balance until such time as the account is collected, charged-off or returned to accrual status. The accrual of finance income on consumer loans is suspended, and all previously accrued but uncollected income is reversed, when payment of principal and/or interest on consumer finance receivables is contractually delinquent for 90 days or more.

Fees and other income includes: (1) factoring commissions, (2) commitment, facility, letters of credit, and syndication fees, (3) servicing fees, and (4) gains and losses from the sales of leasing equipment, venture capital investments, and the sales and securitizations of finance receivables.

Lease Financing

Direct financing leases are recorded at the aggregate future minimum lease payments plus estimated residual values less unearned finance income. Operating lease equipment is carried at cost less accumulated depreciation and is depreciated to estimated residual value using the straight-line method over the lease term or projected economic life of the asset. Equipment acquired in satisfaction of loans and subsequently placed on operating lease is recorded at the lower of carrying value or estimated fair value when acquired. Lease receivables include leveraged leases, for which a major portion of the funding is provided by third party lenders on a nonrecourse basis, with the Company providing the balance and acquiring title to the property. Leveraged leases are recorded at the aggregate value of future minimum lease payments plus estimated residual value, less nonrecourse third party debt and unearned finance income. Management performs periodic reviews of the estimated residual values, with other than temporary impairment, if any, being recognized in the current period.

Reserve for Credit Losses on Finance Receivables

The consolidated reserve for credit losses is periodically reviewed for adequacy considering economic conditions, collateral values and credit quality indicators, including charge-off experience and levels of past due loans and nonperforming assets. It is management's judgment that the consolidated reserve for credit losses is adequate to provide for potential credit losses. The Company reviews finance receivables periodically to determine the probability of loss, and takes charge-offs after considering such factors as the obligor's financial condition and the value of underlying collateral and guarantees. The consolidated reserve for credit losses is intended to provide for future events, which by their nature are uncertain. Therefore, changes in economic conditions or other events affecting specific obligors or industries may necessitate additions or deductions to the consolidated reserve for credit losses.

Charge-off of Finance Receivables

Finance receivables are reviewed periodically to determine the probability of loss. Charge-offs are taken after considering such factors as the borrower's financial condition and the value of underlying collateral and guarantees (including recourse to dealers and manufacturers). Such charge-offs are deducted from the carrying value of the related finance receivables. To the extent that an unrecovered balance remains due, a final charge-off is taken at the time collection efforts are no longer deemed useful. Automatic charge-offs are recorded on consumer finance receivables beginning at 180 days of contractual delinquency based upon historical loss severity, with charge-offs finalized upon disposition of foreclosed assets.

Impaired Loans

Impaired loans are measured based upon 1) the present value of expected future cash flows discounted at the loan's effective interest rate, or 2) the fair value of the collateral, if the loan is collateral dependent. Impaired loans include any loan transaction on nonaccrual status or any troubled debt restructuring entered into after December 31, 1994, subject to periodic review by the Company's Asset Quality Review Committee ("AQR"). The AQR is comprised of members of senior management, which reviews finance receivables of $500,000 or more meeting certain credit risk grading parameters. Excluded from impaired loans are: 1) certain individual small dollar commercial nonaccrual loans (under $500,000) for which the collateral value supports the outstanding balance, 2) consumer loans, which are subject to automatic charge-off procedures, and 3) short-term factoring customer receivables, generally having terms of no more than 30 days. In general, the impaired loans are collateral dependent. Any shortfall between the value and the recorded investment in the loan is recognized by recording a provision for credit losses.

Long-Lived Assets

A review for impairment of long-lived assets, such as operating lease equipment, is performed whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Other Assets

The Company adopted Statement of Financial Accounting Standards No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"), as amended, on January 1, 1997. SFAS 125 uses a "financial components" approach that focuses on control to determine the proper accounting for financial asset transfers and addresses the accounting for servicing rights on financial assets in addition to mortgage loans. Securitizations of finance receivables are accounted for as sales when legal and effective control over the related receivables is surrendered. Servicing assets or liabilities are recognized when the servicing rights are retained by the seller.

In accordance with the transition rules set forth in SFAS 125, the Company, on January 1, 1997, reclassified as servicing assets the portion of previously recognized excess servicing assets that did not exceed contractually specified servicing fees. The remaining balances of previously recognized excess servicing assets are included in other assets and are classified as available-for-sale investment securities subject to the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities". The adoption of SFAS 125 did not have a significant impact on the Company's financial position or results of operations.

At the time management decides to proceed with a securitization of loans, such loans are considered available for sale, classified as other assets and carried at the lower of aggregate cost or market value. Certain consumer loans are originated and sold to trusts which, in turn, issue asset-backed securities to investors. The Company retains the servicing rights and participates in certain cash flows from the loans. The present value of expected net cash flows which exceeds the estimated cost of servicing is recorded at the time of sale as "interest-only receivables" with any related gain recognized. The Company, in its estimation of residual cash flows and interest-only receivables, inherently employs a variety of financial assumptions, including loan pool credit losses, prepayment speeds and discount rates. These assumptions are empirically supported by both the Company's historical experience, market trends and anticipated trends relative to the particular products securitized. Subsequent to the recording of interest-only receivables, the Company regularly reviews such assets for valuation impairment. These reviews are performed on a disaggregated basis. Fair values of interest-only receivables are calculated utilizing current and anticipated credit losses, prepayment speeds and discount rates and are then compared to the Company's carrying values. Carrying value of the Company's interest-only receivables at December 31, 1998 and 1997 approximated fair value.

The excess of purchase price over fair market value of assets acquired (goodwill) in connection with business acquisitions is amortized on a straight line basis over a period not to exceed 25 years.

Assets received in satisfaction of loans are carried at the lower of carrying value or estimated fair value less selling costs, with write-downs at the time of receipt recognized by recording a charge-off. Subsequent write-downs of such assets, which may be required due to a decline in estimated fair market value after receipt, are reflected in general operating expenses.

Fixed assets such as computer equipment, furniture, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the related assets.

Derivative Financial Instruments

The Company uses interest rate swap agreements as part of its overall interest rate risk management. These transactions are entered into as hedges against the effects of future interest rate fluctuations and, accordingly, are not carried at fair value. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The net interest differential, including premiums paid or received, if any, on interest rate swaps, is recognized on an accrual basis as an adjustment to finance income or as interest expense to correspond with the hedged asset or liability position, respectively. If early termination of a derivative instrument occurs, the net proceeds paid or received are deferred and amortized over the shorter of the remaining original contract life of the interest rate swap or the maturity of the hedged asset or liability position.

The Company also uses derivative instruments to hedge the interest rate associated with the anticipated securitization of loans. Such transactions are designated as hedges against a securitization that is probable and for which the significant characteristics and terms have been identified but for which there is no legally binding obligation. The loans to be securitized are considered held for sale and are included in consumer finance receivables held for sale in the accompanying balance sheets. The net interest differential on the derivative instrument, including premium paid or received, if any, is recognized as an adjustment to the basis of the corresponding assets at the time of sale. If the anticipated securitization does not occur, the related hedge position would be liquidated with any gain or loss recognized at such time, and the related assets would be reclassified to finance receivables.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are determined using enacted tax rates expected to apply in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities is recognized in income at the time of enactment of a change in tax rates.

Federal investment tax credits realized for income tax purposes on lease financing transactions have been deferred for financial statement purposes and are included in deferred federal income taxes. Such credits are amortized as a reduction of the provision for income taxes using an actuarial method over the related lease term.

Segment Reporting

The Company adopted Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131") in 1998. SFAS 131 supersedes SFAS 14, "Financial Reporting for Segments of a Business Enterprise," replacing the "industry segment" approach with the "management" approach. The management approach is based on the way management organizes the segments for making operating decisions and assessing performance. SFAS 131 also requires disclosure about products and services, significant account balances, and geographic areas. The adoption of SFAS 131 did not affect results of operations or financial position but did affect the disclosure of segment information. See "Note 21—Business Segment Information".

Comprehensive Income

The Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" in 1998. This statement does not change the reporting of net income. However, it requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a separate financial statement that is displayed with the same prominence as other financial statements. This statement also requires that an enterprise display the accumulated balance of other comprehensive income separately from retained earnings and paid-in-capital in the equity section of a statement of financial position. There were no significant comprehensive income items at December 31, 1998, 1997 or 1996.

Consolidated Statements of Cash Flows

Cash and cash equivalents includes cash and interest-bearing deposits, which generally represent overnight money market investments of excess cash borrowed in the commercial paper market and maintained for liquidity purposes. Cash inflows and outflows from commercial paper borrowings and most factoring receivables are presented on a net basis in the Statements of Cash Flows, as their term is generally less than 90 days.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Note 3—Finance Receivables

Included in lease receivables at December 31, 1998 and 1997 are leveraged lease receivables of $792.2 million and $716.5 million, respectively. Leveraged lease receivables exclude the portion of lease receivables offset by related nonrecourse debt payable to third party lenders of $1.9 billion at both December 31, 1998 and 1997, including amounts owed to affiliates of DKB that totaled $431.0 million in 1998 and $459.0 million in 1997. Finance receivables exclude $2.5 billion of consumer finance receivables at December 31, 1998 ($2.4 billion in 1997) previously securitized and currently managed by the Company.

Commercial and consumer loans are presented net of unearned income of $557.0 million and $584.3 million at December 31, 1998 and 1997, respectively. Lease receivables are presented net of unearned income of $1.1 billion at both December 31, 1998 and 1997.

The following table sets forth the contractual maturities of finance receivables.

At December 31,	1998 Amount	1998 Percent	1997 Amount	1997 Percent
Dollars in Millions				
Due within one year	$ 7,948.8	40.0%	$ 6,540.9	36.9%
Due within one to two years	3,146.0	15.9	2,797.1	15.8
Due within two to four years	3,458.3	17.4	3,288.0	18.6
Due after four years	5,302.9	26.7	5,093.7	28.7
Total	$19,856.0	100.0%	$17,719.7	100.0%

Information about concentrations of credit risk is set forth in "Geographic Composition", "Industry Composition" and "Concentrations" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following table sets forth the information regarding total nonperforming assets.

At December 31,	1998	1997
Dollars in Millions		
Nonaccrual finance receivables	$211.4	$164.4
Assets received in satisfaction of loans	67.3	43.0
Total nonperforming assets	$278.7	$207.4
Percent to finance receivables	1.40%	1.17%

At December 31, 1998 and 1997, the recorded investment in impaired loans, which are generally collateral dependent, totaled $74.1 million and $53.2 million, respectively. No SFAS 114 reserve for credit losses was required because the fair value of the collateral or the present value of expected future cash flows equaled or exceeded the recorded investment for such impaired loans. The average monthly recorded investment in the impaired loans was $73.2 million, $71.6 million and $89.4 million for the years ended December 31, 1998, 1997 and 1996, respectively. Cash collected on impaired loans is applied to the carrying amount. There was no finance income recorded on these loans during 1998, 1997 or 1996 after being classified as impaired. The amount of finance income that would have been recorded under contractual terms for year-end impaired loans would have been $16.1 million, $19.9 million, and $24.7 million in 1998, 1997, and 1996, respectively.

Note 4—Reserve for Credit Losses

The following table presents changes in the reserve for credit losses.

At December 31, Dollars in Millions	1998	1997	1996
Balance, January 1	$ 235.6	$ 220.8	$ 206.0
Provision for credit losses	99.4	113.7	111.4
Portfolio acquisitions, net	7.5	2.1	4.9
Net addition to the reserve for credit losses	106.9	115.8	116.3
Finance receivables charged-off	(103.7)	(123.5)	(122.2)
Recoveries on finance receivables previously charged-off	24.9	22.5	20.7
Net credit losses	(78.8)	(101.0)	(101.5)
Balance, December 31	$ 263.7	$ 235.6	$ 220.8
Reserve for credit losses as a percentage of finance receivables	1.33%	1.33%	1.30%

Note 5—Operating Lease Equipment

The following table provides an analysis of operating lease equipment by equipment type, net of accumulated depreciation of $457.2 million in 1998 and $375.6 million in 1997.

At December 31, Dollars in Millions	1998	1997
Commercial aircraft	$1,094.7	$ 822.7
Railroad equipment	806.0	429.0
Business aircraft	318.7	295.6
Trucks, trailers and buses	187.0	172.2
Manufacturing	147.2	101.3
Other	220.5	84.8
Total	$2,774.1	$1,905.6

Included in the preceding table is equipment not currently subject to lease agreements of $27.2 million and $2.4 million at December 31, 1998 and 1997, respectively.

Commitments to purchase equipment from manufacturers to be placed on operating lease totaled $449.9 million at December 31, 1998. Agreements to lease this equipment to third parties have been entered into for $157.0 million at December 31, 1998. There were no commitments to purchase equipment from manufacturers to be placed on operating lease at December 31, 1997.

Rental income on operating leases, which is included in finance income, totaled $314.1 million in 1998, $231.8 million in 1997, and $182.4 million in 1996. The following table presents future minimum lease rentals on non-cancelable operating leases as of December 31, 1998. Excluded from this table are variable rentals calculated on the level of asset usage, re-leasing rentals, and expected sales proceeds from remarketing operating lease equipment at lease expiration, all of which are important components of operating lease profitability.

Years Ended December 31, Dollars in Millions	
1999	$ 353.2
2000	288.6
2001	237.0
2002	170.4
2003	120.3
Thereafter	208.1
Total	$1,377.6

Note 6—Debt

The following table presents data on commercial paper borrowings.

At December 31, Dollars in Millions	1998	1997	1996
Borrowings outstanding	$6,144.1	$ 5,559.6	$ 5,827.0
Weighted average interest rate	5.35%	5.86%	5.45%
Weighted average maturity	38 days	43 days	32 days

For the Years Ended December 31, Dollars in Millions	1998	1997	1996
Daily average borrowings	$6,572.1	$ 6,320.7	$ 5,892.7
Maximum amount outstanding	$7,655.9	$ 7,039.4	$ 6,666.3
Weighted average interest rate (excluding amounts related to interest bearing deposits)	5.51%	5.56%	5.44%

The following tables present the contractual maturities of total debt at December 31, 1998.

At December 31,	Commercial paper	Variable rate senior notes	1998 Total	1997 Total
Dollars in Millions				
Due in 1998 (rates ranging from 5.58% to 5.90%)	$ –	$ –	$ –	$8,021.1
Due in 1999 (rates ranging from 4.40% to 5.88%)	6,144.1	3,705.0	9,849.1	380.0
Due in 2000 (rates ranging from 4.91% to 5.76%)	–	550.0	550.0	–
Due in 2003 (rates ranging from 5.81% to 5.96%)	–	20.0	20.0	20.0
Total	$6,144.1	$4,275.0	$10,419.1	$8,421.1

At December 31,	Fixed rate notes Senior	Fixed rate notes Subordinated	1998 Total	1997 Total
Due in 1998 (rates ranging from 5.63% to 8.75%)	$ –	$ –	$ –	$1,650.0
Due in 1999 (rates ranging from 5.38% to 6.63%)	1,881.0	–	1,881.0	1,881.0
Due in 2000 (rates ranging from 5.00% to 6.80%)	2,222.0	–	2,222.0	1,095.0
Due in 2001 (rates ranging from 5.50% to 9.25%)	1,475.0	200.0	1,675.0	700.0
Due in 2002 (rates ranging from 5.92% to 7.13%)	1,050.0	–	1,050.0	950.0
Due in 2003 (rates ranging from 5.57% to 6.00%)	755.0	–	755.0	–
Due after 2003 (rates ranging from 5.69% to 6.63%)	658.6	–	658.6	628.6
Face amount of maturities	8,041.6	200.0	8,241.6	6,904.6
Issue discount	(9.3)	–	(9.3)	(10.8)
Total	$8,032.3	$200.0	$8,232.3	$6,893.8

Fixed rate senior and subordinated debt outstanding at December 31, 1998 matures at various dates through 2008 at interest rates ranging from 5.00% to 9.25%. The consolidated weighted average interest rates on fixed rate senior and subordinated debt at December 31, 1998 and 1997 were 6.11% and 6.39%, respectively. Variable rate senior notes outstanding at December 31, 1998 with interest rates ranging from 4.40% to 5.81% mature at various dates through 2003. The consolidated weighted average interest rates on variable rate senior notes at December 31, 1998 and 1997 were 4.93% and 5.66%, respectively.

The following table represents information on unsecured revolving lines of credit with 53 banks that support commercial paper borrowings at December 31, 1998.

Maturity	Amount
Dollars in Millions	
April 1999	$1,240.0
April 2002	3,720.0
Total credit lines	$4,960.0

The credit line agreements contain clauses that allow the Company to extend the termination dates upon written consent from the participating banks.

Note 7—Derivative Financial Instruments

As part of managing the exposure to changes in market interest rates, the Company, as an end-user, enters into various interest rate swap transactions, all of which are transacted in over-the-counter (OTC) markets, with other financial institutions acting as principal counterparties. The Company uses off-balance sheet derivatives for hedging purposes only, and does not enter into derivative financial instruments for trading or speculative purposes. To ensure both appropriate use as a hedge and hedge accounting treatment, all derivatives entered into are designated, according to hedge objective, against commercial paper, a specifically underwritten debt issue or a specific pool of assets. The Company's primary hedge objectives include the conversion of variable rate liabilities to fixed rates, the conversion of fixed rate liabilities to variable rates, the fixing of spreads on variable rate liabilities to various market indices and the elimination of interest rate risk on finance receivables classified as held for sale prior to securitization. The notional amounts, rates, indices and maturities of the Company's off-balance sheet derivatives are required to closely match the related terms of the Company's hedged assets and liabilities.

The following table presents the notional principal amounts, weighted average interest rates expected to be received or paid and the contractual maturities of interest rate swaps at December 31, 1998.

Years Ended December 31,	Floating to Fixed Rate			Fixed to Floating Rate			Floating to Floating Rate		
(Notional Amounts in Millions)	Notional Amount	Receive Rate	Pay Rate	Notional Amount	Receive Rate	Pay Rate	Notional Amount	Receive Rate	Pay Rate
1999	$ 925.0	5.42%	6.15%	$ —	—	—	$ 130.0	4.43%	5.71%
2000	760.0	5.48%	6.95%	20.0	6.15%	5.07%	—	—	—
2001	1,021.7	5.48%	6.12%	200.0	5.82%	5.22%	—	—	—
2002	560.0	5.35%	5.69%	—	—	—	—	—	—
2003	269.7	5.57%	6.03%	—	—	—	—	—	—
2004-2008	204.1	5.62%	5.98%	200.0	5.92%	5.09%	—	—	—
	$3,740.5			$ 420.0			$ 130.0		
Weighted average rate		5.46%	6.22%		5.88%	5.15%		4.43%	5.71%

All rates were those in effect at December 31, 1998. Variable rates are based on the contractually determined rate or other market rate indices and may change significantly, affecting future cash flows.

The following table presents the notional principal amounts of interest rate swaps by class and the corresponding hedged liability position.

Interest Rate Swaps	Notional Amounts	Comments
(Notional amounts in millions)		
Floating to fixed rate swaps		
Hedging commercial paper	$ 2,940.5	Effectively converts the interest rate on an equivalent amount of commercial paper to a fixed rate.
Hedging variable rate notes	800.0	Effectively converts the interest rate on an equivalent amount of variable rate notes with matched terms to a fixed rate.
Total floating to fixed rate swaps	3,740.5	
Fixed to floating rate swaps		
Hedging fixed rate notes	420.0	Effectively converts the interest rate on an equivalent amount of fixed rate notes to a variable rate.
Basis swaps		
Hedging variable rate debt	130.0	Effectively fixes the spread between the rates on an equivalent amount of variable rate notes and various market interest rate indices.
Total interest rate swaps	$ 4,290.5	

The Company's hedging activity increased interest expense by $23.4 million, $24.2 million and $27.8 million in 1998, 1997 and 1996, respectively, over the interest expense that would have been incurred with an identical debt structure but without the Company's hedging activity. However, this calculation of interest expense does not take into account any actions the Company could have taken to reduce interest rate risk in the absence of hedging activity, such as issuing more fixed rate debt that would also tend to increase interest expense.

Basis swap agreements involve the exchange of two different floating rate interest payment obligations and are used to manage the basis risk between floating rate indices.

The Company is party to cross-currency interest rate swaps with a notional principal amount of $218.6 million paying interest at a weighted average rate of 5.15% at December 31, 1998, that effectively converted yen denominated fixed rate debt into variable rate U.S. dollar obligations. These swaps have maturities ranging from 1999 to 2006 that correspond with the terms of the debt.

The Company is exposed to credit risk to the extent a counterparty fails to perform under the terms of an interest rate swap. This risk is measured as the market value of interest rate swaps with a positive fair value, which totaled $37.2 million at December 31, 1998, reduced by the effects of master netting agreements as presented in Note 18 — Fair Values of Financial Instruments. However, due to the investment grade credit ratings of counterparties and limits on the exposure with any individual counterparty, the Company's actual counterparty credit risk is not considered significant.

Note 8—Preferred Capital Securities

In February 1997, CIT Capital Trust I (the "Trust"), a wholly-owned subsidiary of the Company, issued $250.0 million of 7.70% Preferred Capital Securities (the "Capital Securities") in a private offering. The Trust subsequently invested the offering proceeds in Junior Subordinated Debentures (the "Debentures") of the Company, having identical rates and payment dates. The Debentures of the Company represent the sole assets of the Trust. Holders of the Capital Securities are entitled to receive cumulative distributions at an annual rate of 7.70% through either the redemption date or maturity of the Debentures (February 15, 2027). Both the Capital Securities issued by the Trust and the Debentures of the Company owned by the Trust are redeemable in whole or in part on or after February 15, 2007 or at any time in whole upon changes in specific tax legislation, bank regulatory guidelines or securities law. Distributions by the Trust are guaranteed by the Company to the extent that the Trust has funds available for distribution. The Company records distributions payable on the Capital Securities as an operating expense in the Consolidated Statements of Income.

Note 9—Stockholders' Equity

Under the most restrictive provisions of agreements relating to outstanding debt, the Company may not, without the consent of the holders of such debt, permit stockholders' equity to be less than $200.0 million.

During 1998, the Company's Board of Directors authorized the purchase of up to 2,000,000 shares of its common stock to provide shares for its employee compensation programs. Stock repurchases are authorized to take place over a twelve month period ending August 1999, and may be made from time to time in the open market or in privately negotiated transactions. Through December 31, 1998, the Company repurchased 967,930 shares.

Note 10—Fees and Other Income

The following table sets forth the components of fees and other income.

Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Factoring commissions	$ 95.7	$ 95.2	$ 91.0
Fees and other income	90.7	73.8	83.6
Gains on sales of leasing equipment	45.2	30.1	36.6
Gains on securitizations	12.5	32.0	14.9
Gains on sales of venture capital investments	11.3	16.7	18.0
Total	$255.4	$ 247.8	$ 244.1

Note 11—Salaries and General Operating Expenses

The following table sets forth the components of salaries and general operating expenses.

Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Salaries and employee benefits	$245.4	$ 253.5	$ 223.0
General operating expenses	172.4	174.9	170.1
Total	$417.8	$ 428.4	$ 393.1

Note 12—Income Taxes

The effective tax rate of the Company varied from the statutory federal corporate income tax rate as follows:

Years Ended December 31,	1998	1997	1996
Percentage of Pretax Income			
Federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) due to:			
State and local income taxes, net of federal income tax benefit	3.0	3.7	4.5
Investment tax credits	(0.2)	(0.2)	(0.3)
Other	(2.5)	(2.0)	(1.8)
Effective tax rate	35.3%	36.5%	37.4%

The provision for income taxes is comprised of the following:

Years Ended December 31,	1998	1997	1996
Dollars in Millions			
Current federal income tax provision	$ 60.4	$ 70.0	$ 72.9
Deferred federal income tax provision	100.2	80.3	54.1
Total federal income taxes	160.6	150.3	127.0
State and local income taxes	24.4	27.7	28.7
Total provision for income taxes	$185.0	$178.0	$155.7

The tax effects of temporary differences that give rise to significant portions of the deferred federal income tax assets and liabilities are presented below.

At December 31,	1998	1997
Dollars in Millions		
Assets		
Provision for credit losses	$ (88.9)	$ (93.3)
Loan origination fees	(11.3)	(9.2)
Other	(24.3)	(47.1)
Total deferred tax assets	(124.5)	(149.6)
Liabilities		
Leasing transactions	778.3	679.0
Market discount income	33.7	55.8
Amortization of intangibles	8.7	9.9
Depreciation of fixed assets	0.7	1.5
Prepaid pension costs	0.6	1.0
Other	3.1	1.8
Total deferred tax liabilities	825.1	749.0
Net deferred tax liability	$700.6	$599.4

Also, included in deferred federal income taxes on the Consolidated Balance Sheets are unamortized investment tax credits of $3.1 million and $4.2 million at December 31, 1998 and 1997, respectively. Included in the accrued liabilities and payables caption in the Consolidated Balance Sheets are state and local deferred tax liabilities of $124.7 million and $103.6 million at December 31, 1998 and 1997, respectively, arising from the temporary differences shown in the above tables.

Note 13—Earnings Per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128 "Earnings per Share" ("SFAS 128"). SFAS 128 establishes standards for the presentation and disclosure for earnings per share ("EPS"). It also simplifies the standards for computing EPS and makes them comparable to international EPS standards. SFAS 128 replaces the presentation of primary and fully diluted EPS with basic and diluted EPS, respectively, and requires the reconciliation of the numerator and denominator of basic EPS with that of diluted EPS. Basic EPS is computed by dividing net income by the weighted-average number of common shares outstanding for the period. The diluted EPS computation includes the potential impact of dilutive securities including stock options and restricted stock grants. The dilutive effect of stock options is computed using the treasury stock method, which assumes the repurchase of common shares by the Company at the average market price for the period. In accordance with SFAS 128, options which have an anti-dilutive effect are not included in the denominator and were not significant at December 31, 1998. The reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented for the years ended December 31, 1998, 1997, and 1996.

For the Year Ended December 31, 1998	Income (Numerator)	Shares (Denominator)	Per Share Amount
Dollars in Millions (except per share amounts)			
Basic EPS:			
Income available to common shareholders	$338.8	161,987,897	$ 2.09
Effect of Dilutive Securities:			
Restricted shares	–	936,250	(0.01)
Stock options	–	264,592	–
Diluted EPS	$338.8	163,188,739	$ 2.08

For the Year Ended December 31, 1997	Income (Numerator)	Shares (Denominator)	Per Share Amount
Dollars in Millions (except per share amounts)			
Basic EPS:			
Income available to common shareholders	$310.1	158,134,315	$ 1.96
Effect of Dilutive Securities:			
Restricted shares	–	948,527	(0.01)
Stock options	–	71,440	–
Diluted EPS	$310.1	159,154,282	$ 1.95

For the Year Ended December 31, 1996	Income (Numerator)	Shares (Denominator)	Per Share Amount
Dollars in Millions (except per share amounts)			
Basic EPS:			
Income available to common shareholders	$260.1	157,500,000	$ 1.65
Effect of Dilutive Securities:			
Restricted shares	–	948,527	(0.01)
Diluted EPS	$260.1	158,448,527	$ 1.64

Note 14 – Postretirement and Other Benefit Plans

Retirement and Postretirement Medical and Life Insurance Benefit Plans

Substantially all employees of the Company who have completed one year of service and are 21 years of age participate in The CIT Group Holdings, Inc. Retirement Plan (the "Plan"). The retirement benefits under the Plan are based on the employee's age, years of benefit service, and a percentage of qualifying compensation during the final years of employment. Plan assets consist of marketable securities, including common stock and government and corporate debt securities. The Company funds the Plan to the extent it qualifies for an income tax deduction. Such funding is charged to salaries and employee benefits expense.

The Company also provides certain health care and life insurance benefits to eligible retired employees. Salaried participants generally become eligible for retiree health care benefits after reaching age 55 with 10 years of benefit service and 11 years of medical plan participation. Generally, the medical plans pay a stated percentage of most medical expenses reduced by a deductible as well as by payments made by government programs and other group coverage. The plans are unfunded.

During 1998, the Company adopted Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Post Retirement Benefits" ("SFAS 132"). SFAS 132 revises employers' disclosures about pension and other post retirement benefit plans but does not change the measurement or recognition of those plans. SFAS 132 also standardizes the disclosure requirements to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer useful.

The following tables set forth the change in obligations, plan assets, and funded status of the plans as well as the net periodic benefit cost.

At or for the Years	Retirement Benefits			Postretirement Benefits		
Ended December 31,	1998	1997	1996	1998	1997	1996
Dollars in Millions						
Change in Benefit Obligations						
Benefit obligation at beginning of year	$100.4	$ 84.0	$ 79.9	$35.0	$ 34.9	$ 40.4
Service cost	6.3	5.2	5.3	1.5	1.3	1.1
Interest cost	6.9	6.2	5.7	2.3	2.3	2.4
Actuarial (gain)/loss	7.0	7.8	(4.1)	1.2	(1.3)	(7.3)
Benefits paid	(2.5)	(2.8)	(2.8)	(2.8)	(2.2)	(1.7)
Benefit obligation at end of year	$118.1	$ 100.4	$ 84.0	$37.2	$ 35.0	$ 34.9

At or for the Years	Retirement Benefits		Postretirement Benefits	
Ended December 31,	1998	1997	1998	1997
Dollars in Millions				
Change in Plan Assets				
Fair value of plan assets at beginning of year	$128.5	$109.9	$0.0	$ 0.0
Actual return on plan assets	6.8	21.4	–	–
Employer contributions	–	–	2.8	2.2
Benefits paid	(2.5)	(2.8)	(2.8)	(2.2)
Fair value of plan assets at end of year	$132.8	$128.5	$0.0	$ 0.0
Reconciliation of Funded Status at End of Year				
Funded status	$14.7	$ 28.1	$(37.2)	$(35.0)
Unrecognized prior service cost	(1.5)	(1.6)	–	–
Unrecognized net (gain)/loss	(4.7)	(18.2)	(6.2)	(8.3)
Unrecognized net transition obligation	–	–	22.9	24.6
Prepaid/(accrued) benefit cost	$ 8.5	$ 8.3	$(20.5)	$(18.7)

For the Years Ended December 31,	Retirement Benefits 1998	Retirement Benefits 1997	Retirement Benefits 1996	Postretirement Benefits 1998	Postretirement Benefits 1997	Postretirement Benefits 1996
Weighted Average Assumptions						
Discount rate	6.50%	7.00%	7.50%	6.50%	7.00%	7.50%
Rate of compensation increase	4.25%	4.50%	4.50%	4.25%	4.50%	4.50%
Expected return on plan assets	10.00%	10.00%	10.00%	–	–	–

For 1998, the assumed health care cost trend rates decline to an ultimate level of 4.50% in 2005 for all retirees; for 1997, 4.50% in 2004 for all retirees; and for 1996, 4.75% in 2001 for employees prior to reaching age 65 and 4.75% in 1998 for retirees older than 65.

For the Years Ended December 31, Dollars in Millions	Retirement Benefits 1998	Retirement Benefits 1997	Retirement Benefits 1996	Postretirement Benefits 1998	Postretirement Benefits 1997	Postretirement Benefits 1996
Components of Net Periodic Benefit Cost						
Service cost	$ 6.3	$ 5.2	$ 5.3	$ 1.5	$ 1.3	$ 1.1
Interest cost	6.9	6.2	5.7	2.3	2.3	2.4
Expected return on plan assets	(12.8)	(10.8)	(10.1)	–	–	–
Amortization of prior service cost	(0.2)	(0.2)	(0.2)	–	–	–
Amortization of transition obligation	–	–	–	1.6	1.7	1.7
Amortization of gains	(0.5)	(0.4)	–	(0.8)	(0.8)	(0.6)
Total net periodic (benefit)/expense	$ (0.3)	$ -	$ 0.7	$ 4.6	$ 4.5	$ 4.6

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

For the Years Ended December 31, Dollars in Millions	Postretirement Benefits 1998	Postretirement Benefits 1997
Effect of One-Percentage Point Increase on:		
Year-end benefit obligation	$ 2.6	$ 2.4
Total of service and interest cost components	0.4	0.3
Effect of One-Percentage Point Decrease on:		
Year-end benefit obligation	$(2.4)	$(2.2)
Total of service and interest cost components	(0.3)	(0.3)

Savings Incentive Plan

Certain employees of the Company participate in The CIT Group Holdings, Inc. Savings Incentive Plan. This plan qualifies under section 401(k) of the Internal Revenue Code. The Company's expense is based on specific percentages of employee contributions and plan administrative costs and aggregated $9.6 million, $9.0 million, and $9.1 million for 1998, 1997, and 1996, respectively.

Corporate Annual Bonus Plan

The CIT Group Bonus Plan ("Bonus Plan") is an annual bonus plan covering certain executive officers and other employees. The amount of awards depends on a variety of factors, including corporate performance and individual performance during the calendar year for which awards are made. All or part of a cash award for a particular year may be paid currently or deferred and paid upon retirement in up to five annual installments at the option of the participant. All awards are subject to appropriate taxes and deferred amounts are credited annually with interest. For the years ended December 31, 1998, 1997, and 1996, expenses for the Bonus Plan amounted to $18.6 million, $18.5 million, and $17.4 million, respectively.

Long-Term Equity Compensation Plan

The Company sponsors a Long-Term Equity Compensation Plan (the "ECP"). The ECP allows the Company to issue to employees up to 12,503,000 shares of Class A Common Stock through grants of annual incentive awards, incentive and non-qualified stock options, stock appreciation rights, restricted stock, performance shares, and performance units. Class A Common Stock issued under the ECP may be either authorized but unissued shares, treasury shares, or any combination thereof. All options granted have 10 year terms. Options granted in 1997 vest at various anniversary dates through 2002. Options granted in 1998 vest one-third on the first anniversary of the date of grant (1999), an additional one-third on the second anniversary of the date of grant (2000), and in full on the third anniversary of the date of grant (2001).

Common stock data for the stock option plans is summarized as follows:

	1998		1997	
	Shares	Average Option Price Per Share	Shares	Average Option Price Per Share
Outstanding at beginning of year	4,038,298	$27.00	–	–
Granted	892,120	$29.08	4,047,816	$27.00
Exercised	(921)	$27.00	–	–
Forfeited	(163,388)	$27.01	(9,518)	$27.00
Outstanding at end of year	4,766,109	$27.39	4,038,298	$27.00
Options exercisable at year end	903,438	$27.00	1,062	$27.00
Weighted average fair value of options granted during the year	$ 9.41		$ 8.32	

Fair value was determined at the date of grant using the Black-Scholes option pricing model which assumed the following:

Option Issuance	Expected Option Life Range	Average Dividend Yield	Expected Volatility Range	Risk Free Interest Rate Range
1998	3-5 years	1.37%	29.39%-40.93%	4.54%-5.63%
1997	3-7 years	1.33%	29.48%-31.39%	5.76%-5.90%

The following table summarizes information about stock options outstanding and options exercisable at December 31, 1998:

	Options Outstanding			Options Exercisable	
Range of Exercise	Number Outstanding	Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$27.00 - $33.06	4,766,109	9.12 years	$27.39	903,438	$27.00

Restricted Stock

In November 1997, the Company issued 948,527 shares of restricted Class A Common Stock in connection with the termination of the CIT Career Incentive Plan. Restricted shares of 919,879 and 948,527 were outstanding at December 31, 1998 and 1997, respectively. Such shares were issued at fair market value, which was $27.00 per share on the issue date. These shares vest on the third anniversary of the date of grant. The holder of restricted stock generally has the rights of a stockholder of the Company, including the right to vote and to receive cash dividends. For the years ended December 31, 1998 and 1997, expenses in connection with restricted stock amounted to $5.2 million and $9.0 million, respectively.

CIT Career Incentive Plan

Prior to the termination of the CIT Career Incentive Plan in conjunction with the IPO, phantom shares granted under the plan entitled the participant to receive, at the end of the three year performance period, a specified amount of cash. Following the end of the performance period, one-third of the phantom shares vested immediately and one-third vested at the end of each of the next two years. The Company terminated the CIT Career Incentive Plan as of November 13, 1997 and extinguished all phantom shares of stock, by making a cash payment and granting restricted shares of Class A Common Stock and stock options. At the employee's option, all or part of the cash component of the termination could either be paid in 1998 in cash or deferred in up to five annual installments. For the years ended December 31, 1997 and 1996, amounts charged to expense for the CIT Career Incentive Plan amounted to $20.1 million and $9.5 million, respectively. All charges relating to the termination of the Career Incentive Plan are included in 1997 expense.

Employee Stock Purchase Plan

In 1998, the Company adopted an Employee Stock Purchase Plan (the "ESPP"). Under the ESPP, the Company is authorized to issue up to 500,000 shares of common stock to eligible employees. Under the terms of the ESPP, employees can choose to have between 1% and 10% of their base salary withheld to purchase the Company's stock at 85% of the fair market value. During 1998, the Company sold 21,214 shares to employees under the ESPP.

Accounting for Stock-Based Compensation Plans

The Company has elected to apply Accounting Principles Board Opinion 25 ("APB 25") rather than the optional provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123") in accounting for its stock-based compensation plans. Under APB 25, the Company does not recognize compensation expense on the issuance of its stock options because the option terms are fixed and the exercise price equals the market price of the underlying stock on the grant date. As required by SFAS 123, the Company has determined the pro forma information as if the Company had accounted for stock options granted under the fair value method of SFAS 123. Had the compensation cost of the Company's stock-based compensation plans been determined based on the operational provisions of SFAS 123, the Company's net income for 1998 and net income per diluted share would have been $333.4 million and $2.04, compared to $338.8 million and $2.08, as reported. For 1997, net income and net income per diluted share would have been $288.7 million and $1.81, compared to $310.1 million and $1.95, as reported.

Note 15—Lease Commitments

The Company has entered into noncancelable long-term lease agreements for premises and equipment. The following table presents future minimum rentals under such noncancelable leases that have initial or remaining terms in excess of one year at December 31, 1998.

Years Ended December 31, Dollars in Millions	
1999	$ 22.8
2000	19.7
2001	17.4
2002	15.9
2003	21.2
Thereafter	28.0
Total	$125.0

In addition to fixed lease rentals, leases require payment of maintenance expenses and real estate taxes, both of which are subject to escalation provisions. Minimum payments have not been reduced by minimum sublease rentals of $13.9 million due in the future under noncancelable subleases.

Rental expense, net of sublease income on premises and equipment, was as follows.

Years Ended December 31, Dollars in Millions	1998	1997	1996
Premises	$17.1	$ 19.6	$ 18.0
Equipment	6.5	6.0	6.3
Less sublease income	(1.3)	(1.2)	(1.2)
Total	$22.3	$ 24.4	$ 23.1

Note 16—Legal Proceedings

In the ordinary course of business, there are various legal proceedings pending against the Company. Management believes that the aggregate liabilities, if any, arising from such actions will not have a material adverse effect on the consolidated financial position, results of operations or liquidity of the Company.

Note 17—Credit-Related Commitments

In the normal course of meeting the financing needs of its customers, the Company enters into various credit-related commitments. These financial instruments generate fees and involve, to varying degrees, elements of credit risk in excess of the amounts recognized in the Consolidated Balance Sheets. To minimize potential credit risk, the Company generally requires collateral and other credit-related terms and conditions from the customer. At the time credit-related commitments are granted, management believes the fair value of the underlying collateral and guarantees approximates or exceeds the contractual amount of the commitment. In the event a customer defaults on the underlying transaction, the maximum potential loss to the Company will be the contractual amount outstanding less the value of all underlying collateral and guarantees.

The accompanying table summarizes the contractual amounts of credit-related commitments.

At December 31, Dollars in Millions	Due to expire: Within one year	Due to expire: After one year	Total Outstanding 1998	Total Outstanding 1997
Unused commitments to extend credit				
Financing and leasing assets	$1,684.9	$192.0	$1,876.9	$1,608.2
Letters of credit and acceptances				
Standby letters of credit	152.2	4.2	156.4	209.6
Other letters of credit	189.5	10.6	200.1	181.1
Acceptances	12.2	–	12.2	24.0
Guarantees	169.9	68.9	238.8	200.9
Foreign exchange contracts	2.2	–	2.2	1.1

Note 18—Fair Values of Financial Instruments

Statement of Financial Accounting Standards No. 107 “Disclosures About Fair Value of Financial Instruments” (“SFAS 107”) requires disclosure of the estimated fair value of the Company’s financial instruments, excluding leasing transactions accounted for under SFAS 13. The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial instrument. Since no established trading market exists for a significant portion of the Company’s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involving uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions or estimation methods may significantly affect the estimated fair values. Because of these limitations, management provides no assurance that the estimated fair values presented would necessarily be realized upon disposition or sale.

Actual fair values in the marketplace are affected by other significant factors, such as supply and demand, investment trends, and the motivations of buyers and sellers, which are not considered in the methodology used to determine the estimated fair values presented. In addition, fair value estimates are based on existing on-and off-balance sheet financial instruments without attempting to estimate the value of future business transactions and the value of assets and liabilities that are part of the Company’s overall value but are not considered financial instruments. Significant assets and liabilities that are not considered financial instruments include customer base, operating lease equipment, premises and equipment, assets received in satisfaction of loans, and deferred tax balances. In addition, tax effects relating to the unrealized gains and losses (differences in estimated fair values and carrying values) have not been considered in these estimates and can have a significant effect on fair value estimates. The carrying amounts for cash and cash equivalents approximate fair value because they have short maturities and do not present significant credit risks. Credit-related commitments, as disclosed in Note 17, are primarily short term floating rate contracts whose terms and conditions are individually negotiated, taking into account the creditworthiness of the customer and the nature, accessibility and quality of the collateral and guarantees. Therefore, the fair value of credit-related commitments, if exercised, would approximate their contractual amounts.

Estimated fair values, recorded carrying values, and various assumptions used in valuing the Company's financial instruments, excluding leasing transactions accounted for under SFAS 13, at December 31, 1998 and 1997 are set forth below.

	1998		1997	
	Carrying Value Asset (Liability)	Estimated Fair Value Asset (Liability)	Carrying Value Asset (Liability)	Estimated Fair Value Asset (Liability)
Dollars in Millions				
Finance receivables – loans [(a)]	$15,474.0	$15,772.2	$13,821.1	$14,028.2
Consumer finance receivables held for sale	987.4	987.4	268.2	268.2
Other assets [(b)]	469.3	480.9	383.9	420.9
Commercial paper [(c)]	(6,144.1)	(6,144.1)	(5,559.6)	(5,559.6)
Fixed rate senior notes and subordinated fixed rate notes [(d)]	(8,232.3)	(8,365.5)	(6,893.8)	(6,924.1)
Variable rate notes [(d)]	(4,275.0)	(4,272.3)	(2,861.5)	(2,856.5)
Credit balances of factoring clients & accrued liabilities and payables [(e)]	(1,833.6)	(1,833.6)	(1,714.0)	(1,714.0)
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely debentures of the Company [(f)]	(250.0)	(263.4)	(250.0)	(253.8)
Derivative financial instruments [(g)]				
Interest rate swaps				
Off-balance sheet assets	–	11.6	–	1.2
Off-balance sheet liabilities	–	(79.0)	–	(46.6)
Cross currency assets	–	25.6	–	5.2
Cross currency liabilities	–	(2.7)	–	(12.0)

(a) The fair value of performing fixed-rate loans was estimated based upon a present value discounted cash flow analysis, using interest rates that were being offered at the end of the year for loans with similar terms to borrowers of similar credit quality. Discount rates used in the present value calculation range from 7.59% to 8.67% for 1998 and 8.21% to 9.20% for 1997. The maturities used represent the average contractual maturities adjusted for prepayments. For floating rate loans that reprice frequently and have no significant change in credit quality, fair value approximates carrying value. The net carrying value of lease finance receivables not subject to fair value disclosure totaled $4.1 billion in 1998 and $3.7 billion in 1997.

(b) Other assets subject to fair value disclosure include accrued interest receivable and investment securities. The carrying amount of accrued interest receivable approximates fair value. Investment securities actively traded in a secondary market were valued using quoted available market prices. Investments not actively traded in a secondary market were valued based upon recent selling price or present value discounted cash flow analysis. The carrying value of other assets not subject to fair value disclosure totaled $406.4 million in 1998 and $281.9 million in 1997.

(c) The estimated fair value of commercial paper approximates carrying value due to the relatively short maturities.

(d) Fixed rate notes were valued using a present value discounted cash flow analysis with a discount rate approximating current market rates for issuances by the Company of similar term debt at the end of the year. Discount rates used in the present value calculation ranged from 4.83% to 6.04% in 1998 and 5.23% to 6.60% in 1997. The estimated fair value for variable rate notes differs from carrying value as a result of a foreign denominated issuance.

(e) The estimated fair value of credit balances of factoring clients approximates carrying value due to their short settlement terms. Accrued liabilities and payables with no stated maturities have an estimated fair value that approximates carrying value. The carrying value of other liabilities not subject to fair value disclosure totaled $866.5 million in 1998 and $752.3 million in 1997.

(f) Company-obligated mandatorily redeemable preferred capital securities of subsidiary trust holding solely debentures of the Company were valued using a present value discounted cash flow analysis with a discount rate approximating current market rates of similar issuances at the end of the year.

(g) As previously disclosed in Note 7—Derivative Financial Instruments, the notional principal amount of interest rate swaps designated as hedges against the Company's debt totaled $4.3 billion at December 31, 1998 ($0.7 billion of which related to interest rate swaps whose fair market value represented an asset and $3.6 billion related to interest rate swaps whose fair market value represented a liability, after adjusting for master netting agreements) and $3.6 billion at December 31, 1997 ($0.8 billion of assets and $2.8 billion of liabilities). The notional principal amount of cross currency interest rate swaps totaled $218.6 million at December 31, 1998 and 1997. The estimated fair values of derivative financial instruments are obtained from dealer quotes and represent the net amount receivable or payable to terminate the agreement, taking into account current market interest rates and counterparty credit risk.

Note 19—Investments in Debt and Equity Securities

The Company has decided to adopt early the provisions of Statement of Financial Accounting Standards No. 134, "Accounting for Mortgaged-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" ("SFAS 134"). Among other provisions, SFAS 134 requires that after the securitization of mortgage loans held for sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. At December 31, 1998 and 1997, the Company's investments in debt and equity securities designated as available for sale and subject to the provisions of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities," as amended by SFAS 134, totaled $238.6 million and $233.6 million, respectively. Included in the 1997 balance is $38.2 million relating to securitized home equity loans which were classified as trading. Unrealized gains and losses, representing the difference between carrying value and current fair market value, were not significant.

Included in the Company's investments in debt and equity securities are retained interests in securitized assets of $222.8 million at December 31, 1998 and $214.5 million at

December 31, 1997. Retained interests include interest-only receivables, retained subordinated securities, and cash reserve accounts related to fifteen securitizations from 1992 through 1998. The carrying value of the retained interests in securitized assets is reviewed periodically for valuation impairment.

Ranges of key economic assumptions used in calculating the fair value of the retained interests in securitized assets by type of product at December 31, 1998 were as follows:

	Manufactured Housing	Recreation Vehicle	Home Equity	Recreational Boat
Prepayment speed	225%-290%(1)	21.5%-24.4%(2)	23.6%-29.9%(2)(3)	21.0%-21.5%(2)(3)
Expected credit losses(4)	0.90%-1.75%	0.21%-1.15%	0.87%-0.95%	0.71%-0.92%
Weighted average discount rate	8.00%	8.00%	12.00%	8.50%

(1) Based upon MHP, a prepayment ramp commonly used in the manufactured housing sector. MHP assumes a CPR (constant prepayment rate) for a newly originated loan equal to 3.7% in month one, increasing to 6% in month 24, then remaining constant at 6%.

(2) Based upon CPR. CPR expresses prepayments as a function of the declining amount of loans at a compound annual rate.

(3) Implied cumulative remaining CPR based upon prepayment ramps developed for each individual collateral pool.

(4) Annualized rate based upon average outstanding loan balances.

Note 20—Certain Relationships and Related Transactions

The Company has in the past and may in the future enter into certain transactions with affiliates of the Company. It is anticipated that such transactions will be entered into at a fair market value for the transaction.

The Company's interest-bearing deposits generally represent overnight money market investments of excess cash that are maintained for liquidity purposes. From time to time, the Company may maintain such deposits with DKB or Chase.

At December 31, 1998 and December 31, 1997, the Company's credit line coverage with 53 banks totaled $5.0 billion of committed facilities. DKB was a committed bank under a $1.2 billion revolving credit facility and a $3.7 billion revolving credit facility with commitments of $67.5 million and $210.0 million, respectively, at December 31, 1998, and with commitments of $71.2 million and $213.8 million, respectively, at December 31, 1997. Additional information regarding these credit lines can be found in Note 6 – Debt.

The Company has entered into interest rate swap and cross currency interest rate swap agreements with financial institutions acting as principal counterparties, including affiliates of DKB. The notional principal amount outstanding on interest rate swap agreements with DKB totaled $220.0 million at both December 31, 1998 and 1997. The notional principal amount outstanding on foreign currency swaps with DKB totaled $168.6 million at year-end 1998 and 1997, respectively.

The Company has entered into leveraged leasing arrangements with third party loan participants, including affiliates of DKB. Amounts owed to affiliates of DKB are discussed in Note 3—Finance Receivables.

At December 31, 1998 and 1997, the Company had entered into credit-related commitments with DKB in the form of letters of credit totaling $12.2 million and $15.2 million, respectively, equal to the amount of the single lump sum premium necessary to provide group life insurance coverage to certain eligible retired employees and an amount to fund certain overseas finance receivables.

The Company has entered into cash collateral loan agreements with DKB pursuant to which DKB made four loans to separate cash collateral trusts in order to provide additional security for payments on the certificates of the related contract trusts. These contract trusts were formed for the purpose of securitizing certain recreation vehicle and recreational marine finance receivables. During 1998, the Company replaced DKB's position in two cash collateral loan agreements with a total payment made to DKB of $5.9 million. At December 31, 1998 and 1997, the principal amount outstanding on the cash collateral loans with DKB was $34.3 million and $45.8 million, respectively.

Prior to November 1997, Chase had owned 20% of the Company. At December 31, 1997, Chase was both the agent and a committed bank under the $1.2 billion revolving credit facility and $3.7 billion revolving credit facility referred to above with commitments of $63.8 million and $191.2 million, respectively.

The Company has entered into interest rate and cross currency swap agreements with Chase acting as principle counterparties. At December 31, 1997, the notional principal outstanding on interest rate swap agreements with Chase totaled $475.0 million.

At December 31, 1997, the Company held a $9.0 million letter of credit from Chase as additional collateral on a $20.8 million business aircraft loan to a third party. Chase was also indebted to the Company in the amount of $6.7 million for financing relating to the purchase of a business aircraft by Chase, at December 31, 1997.

The Company has also entered into various noncancelable long-term facility lease agreements with Chase. Rental expense paid to Chase totaled $0.5 million in 1997.

During 1997, the Company purchased finance receivables totaling $39.6 million from Chase, and entered into an arrangement with Chase pursuant to which the Company provides servicing for Chase's recreation vehicle and recreational boat finance receivables portfolio, which had a remaining balance of $1.1 billion at December 31, 1997.

Note 21—Business Segment Information

In 1998, the Company adopted SFAS 131. The prior years' segment information has been restated to conform to the current presentation.

Management's Policy in Identifying Reportable Segments

The Company's reportable segments are comprised of strategic business units aggregated into segments based upon the commonality of their products, customers, distribution methods, operations and servicing, and the nature of their regulatory environment.

Types of Products and Services

CIT has three reportable segments, Equipment Financing and Leasing, Commercial Finance and Consumer. Equipment Financing and Leasing offers secured lending and leasing products to midsize and larger companies across a variety of industries including aerospace, construction, rail, machine tool, business aircraft, technology, manufacturing, and transportation. The Commercial Finance segment offers secured lending and receivables collection/management products 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, and debtor-in-possession and turnaround financing. The Company's Consumer segment offers retail installment sale products to consumers focused primarily on home equity and retail sales financing secured by recreation vehicles, manufactured housing, and recreational boats.

Segment Profit and Assets

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies. Since the Company generates a majority of its revenue from interest, fees, and asset gains, management relies primarily on net revenues to assess the performance of the segment. The Company evaluates segment performance based on profit after income taxes, as well as asset growth, credit risk management, and other factors. The Company considers significant long lived assets as equipment on operating lease.

The following table presents reportable segment information and the reconciliation of segment balances to the consolidated financial statement total as of December 31, 1998, 1997 and 1996.

Dollars in Millions	Equipment Financing and Leasing	Commercial Finance	Consumer	Total Segments	Corporate and Other	Consolidated Total
December 31, 1998						
Operating revenue	$ 616.8	$ 348.7	$ 222.4	$ 1,187.9	$ 41.8	$ 1,229.7
Depreciation on operating leases	169.5	–	–	169.5	–	169.5
Income taxes	93.3	84.7	27.2	205.2	(20.2)	185.0
Net income	193.9	119.1	44.3	357.3	(18.5)	338.8
Total managed assets	13,367.0	4,996.2	7,771.2	26,134.4	81.9	26,216.3
Expenditures for operating leases	1,101.7	–	–	1,101.7	-	1,101.7
December 31, 1997						
Operating revenue	561.6	343.5	210.9	1,116.0	77.3	1,193.3
Depreciation on operating leases	146.8	–	–	146.8	–	146.8
Income taxes	82.9	83.4	31.6	197.9	(19.9)	178.0
Net income	163.4	112.7	49.6	325.7	(15.6)	310.1
Total managed assets	11,709.7	4,250.8	6,318.6	22,279.1	65.8	22,344.9
Expenditures for operating leases	802.8	–	–	802.8	–	802.8
December 31, 1996						
Operating revenue	510.5	346.0	169.0	1,025.5	16.5	1,042.0
Depreciation on operating leases	121.7	–	–	121.7	–	121.7
Income taxes	69.1	84.5	26.4	180.0	(24.3)	155.7
Net income	145.4	109.6	40.1	295.1	(35.0)	260.1
Total managed assets	11,321.6	3,838.1	4,792.7	19,952.4	53.0	20,005.4
Expenditures for operating leases	431.2	–	–	431.2	–	431.2

Revenues derived from United States based financing and leasing assets were $2,129.9 million, $2,001.6 million, and $1,788.6 million, for the years ending December 31, 1998, 1997, and 1996, respectively. Revenues derived from foreign based financing and leasing assets were $140.6 million, $128.9 million, and $101.7 million for the years ending December 31, 1998, 1997, and 1996, respectively.

United States based operating lease equipment, net, was $1,960.7 million, $1,397.5 million, and $1,107.9 million at December 31, 1998, 1997, and 1996, respectively. Foreign based operating lease equipment, net, was $813.4 million, $508.1 million, and $294.2 million at December 31, 1998, 1997, and 1996, respectively.

Note 22—Selected Quarterly Financial Data (Unaudited)

	1998				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Dollars in Millions (except per share data)					
Net finance income	$228.0	$240.4	$246.8	$259.1	$974.3
Fees and other income	66.4	60.7	69.0	59.3	255.4
Salaries and general operating expenses	101.7	104.0	105.3	106.8	417.8
Provision for credit losses	22.5	21.9	30.6	24.4	99.4
Depreciation on operating lease equipment	38.3	40.4	42.7	48.1	169.5
Minority interest in subsidiary trust holding solely debentures of the Company	4.8	4.8	4.8	4.8	19.2
Provision for income taxes	45.4	46.3	46.3	47.0	185.0
Net income	$ 81.7	$ 83.7	$ 86.1	$ 87.3	$338.8
Net income per diluted share	$ 0.50	$ 0.51	$ 0.53	$ 0.54	$ 2.08

	1997				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Dollars in Millions (except per share data)					
Net finance income	$214.0	$218.3	$226.0	$229.2	$887.5
Fees and other income	57.7	49.4	78.9	61.8	247.8
Gain on sale of equity interest acquired in loan workout	–	58.0	–	–	58.0
Salaries and general operating expenses	99.9	110.6	103.6	114.3	428.4
Provision for credit losses	27.0	29.0	35.8	21.9	113.7
Depreciation on operating lease equipment	32.1	33.9	42.3	38.5	146.8
Minority interest in subsidiary trust holding solely debentures of the Company	1.9	4.8	4.8	4.8	16.3
Provision for income taxes	40.7	53.7	43.1	40.5	178.0
Net income	$ 70.1	$ 93.7	$ 75.3	$ 71.0	$310.1
Net income per diluted share	$ 0.44	$ 0.59	$ 0.48	$ 0.44	$ 1.95

Note 23—Subsequent Event (Unaudited)

On March 8, 1999, the Company announced that it would acquire Newcourt Credit Group, Inc. (“Newcourt”) in an exchange of common stock. Under the terms of the transaction, which will be accounted for on a purchase basis, 0.92 shares of the Company’s common stock will be exchanged for each outstanding share of Newcourt common stock. The transaction is expected to close during the third quarter of 1999, and is conditioned upon, among other things, regulatory and shareholder approval.

Newcourt is headquartered in Toronto, Canada and its stock is traded on the New York, Toronto and Montreal Stock Exchanges.

Management's Report on Responsibility for Financial Reporting

The management of The CIT Group and its subsidiaries has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The consolidated financial statements were prepared in accordance with generally accepted accounting principles. The consolidated financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the consolidated financial statements.

The management of The CIT Group and its subsidiaries is also responsible for establishing and maintaining an effective internal control structure and procedures for financial reporting and safeguarding of assets. There are inherent limitations in the effectiveness of any system of internal control, and accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Management assessed The CIT Group's internal control structure and procedures for financial reporting and safeguarding of assets as of December 31, 1998, based on recognized criteria for effective internal control. Based on this assessment, management believes that The CIT Group maintained an effective internal control structure and procedures for financial reporting and safeguarding of assets as of December 31, 1998.

The Company maintains a strong internal auditing program that independently assesses the effectiveness of the system of internal control and recommends possible improvements thereto. The accounting firm of KPMG LLP has performed an independent audit of the Company's consolidated financial statements. Their audit was made in accordance with generally accepted auditing standards and considered the Company's internal control structure to the extent they deemed necessary to support their independent auditors' report appearing herein.

The Audit Committee of the Board of Directors, now comprised entirely of outside directors, reviews the systems of internal control and financial reporting. The Committee meets and consults regularly with management, the internal auditors and the independent accountants to review the scope and results of their work. Unrestricted access to the Audit Committee is provided to KPMG LLP and the internal audit staff, allowing open discussion, without management's presence, of any matters that they believe require attention.

Albert R. Gamper, Jr.
President and Chief
Executive Officer

Joseph M. Leone
Executive Vice President
Chief Financial Officer

William J. Taylor
Senior Vice President
Controller

Independent Auditors' Report

The Stockholders and Board of Directors of
The CIT Group, Inc.:

We have audited the accompanying consolidated balance sheets of The CIT Group, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The CIT Group, Inc. and subsidiaries at December 31, 1998 and 1997, and the results of their operations and cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

KPMG LLP

Short Hills, New Jersey
January 28, 1999

Commercial Paper

The CIT Group, Inc. is a direct issuer of commercial paper and therefore is able to design each transaction based on investors' individual requirements. The Company's commercial paper is rated "P-1" by Moody's Investor Services, "D-1+" by Duff & Phelps Rating Company, and "A-1" by Standard & Poor's Corporation.

Interest is quoted on a daily, fixed-rate basis. Notes may be purchased at a discount or at the face amount. Both methods of purchase result in an equal rate of return to the investor. Notes are sold in thousand dollar increments with a minimum denomination of $100,000 and maturities up to 270 days. Delivery and payment for commercial paper transactions are settled with the investor's custody agent through the Depository Trust Company.

Current rates of interest may be obtained and purchases arranged by calling (800) 345-9017. Investors may also place commercial paper orders through the Bloomberg Electronic Trading System.

Variable Rate and Fixed Rate Debt

The Company periodically issues variable rate and fixed rate debt in the public market and also places it privately with lending institutions. Publicly issued variable rate and fixed rate senior debt is rated "Aa3" by Moody's, "AA-" by Duff & Phelps and "A+" by Standard & Poor's. Senior subordinated long term notes and debentures are rated "A1" by Moody's, "A+" by Duff & Phelps, and "A" by Standard & Poor's.

Ratings

Following the announcement of the Company's pending acquisition of Newcourt Credit Group, Inc., Standard & Poor's Rating Services and Duff & Phelps Credit Rating Co. reaffirmed the Company's short-term and long-term debt ratings. Moody's Investors Service, Inc. ("Moody's") placed the Company's long-term debt ratings under review for possible downgrade due to the possible effect of the acquisition on the Company. Moody's reaffirmed the Company's commercial paper ratings.

Information Requests

Upon request, the Company will provide a 1998 Annual Report on Form 10-K and all quarterly reports on Form 10-Q as filed with the Securities and Exchange Commission. There is no charge for these documents. Please direct your request and questions to:

Investor Relations Department
The CIT Group, Inc.
650 CIT Drive
Livingston, New Jersey 07039
Telephone: (888) 857-9598

Stock Exchange

The CIT Group Class A Common Stock is listed on the New York Stock Exchange.
Ticker Symbol: CIT

For more information on The CIT Group, Inc. please visit our website at: **http://www.citgroup.com**

Transfer Agent and Registrar

To transfer stock, research lost certificates, change mailing addresses, eliminate duplicate mailings, or for questions regarding payment of dividends:

Address Shareholder Inquiries to:
The Bank of New York
Shareholder Relations Department - 11E
P.O. Box 11258
Church Street Station
New York, New York 10286
Telephone: (800) 524-4458
E-Mail Address: Shareholder-svcs@bankofny.com
Stock Transfer Website: http://stock.bankofny.com

Send Certificates for Transfer and Address Changes To:
The Bank of New York
Receive and Deliver Department - 11W
P.O. Box 11002
Church Street Station
New York, New York 10286

Analyst Inquiries

Research analysts and institutional investors may direct their questions to:
Jeffrey D. Simon – Senior Vice President
Investor Relations
and Corporate Planning
The CIT Group, Inc.
650 CIT Drive
Livingston, New Jersey 07039
Telephone: (973) 535-5911
Fax: (973) 597-2045
E-Mail Address: jsimon@citgroup.com

Media Inquiries

Requests for general information or questions from the news media should be directed to:

Michael J. McGowan – Vice President
Communications Services
The CIT Group, Inc.
650 CIT Drive
Livingston, New Jersey 07039
Telephone: (973) 535-3506
Fax: (973) 740-5132
E-Mail Address: mmcgowan@citgroup.com

Stock Price

During 1998, based upon the last reported sale prices for each trading day, the stock price had a high of $37.50, a low of $19.13 and closed at $31.81 on December 31, 1998.

Dividends

Dividends per share paid out on the following dates:
April 20, 1998 – $.10
August 31, 1998 – $.10
November 30, 1998 – $.10
March 1, 1999 – $.10

For information about products and services call our special toll-free number : 1-800-CIT-1908

The CIT Group, Inc. is composed of eight operating units strategically focused to offer financing products and services from a nationwide distribution network to commercial and consumer borrowers.

The CIT Group/Business Credit

Thomas C. Bloch
President & CEO
1211 Avenue of the Americas
New York, New York 10036

Provides revolving and term loans to the middle-market, which are secured by accounts receivable, inventories, and fixed assets, and are primarily used in acquisitions, refinancings, debtor-in-possession, and turnaround financings. It offers specialized financings for the retail and high-tech industries.

The CIT Group/Capital Finance

Nikita Zdanow
President & CEO
1211 Avenue of the Americas
New York, New York 10036

Utilizes its asset management skills and structuring expertise to provide a wide array of leasing and financial products to the aerospace and rail industries. Its specialized industry groups offer customized financing and leasing packages for new and used equipment with a special focus on operating leases, for medium and large-sized corporations, both domestic and international.

The CIT Group/Commercial Services

Lawrence A. Marsiello
President & CEO
1211 Avenue of the Americas
New York, New York 10036

Offers a full range of domestic and international customized credit protection and lending services. These services include factoring, working capital and term loans, receivable management outsourcing, bulk purchases of accounts receivable, import and export financing, and letter-of-credit programs.

The CIT Group/Consumer Finance

Thomas B. Hallman
President & CEO
650 CIT Drive
Livingston, New Jersey 07039

Offers a broad range of first and second mortgage loans and home equity lines of credit through mortgage brokers and bankers. Consumer Finance serves these channels through 33 offices located in major U.S. markets and a National Portfolio Acquisition unit based in its NJ headquarters. Consumer Finance provides mortgage related services ranging from origination through servicing.

The CIT Group/Credit Finance

Sharon L. Spector
President & CEO
1211 Avenue of the Americas
New York, New York 10036

Provides revolving and term loans to small and medium-sized businesses, secured by accounts receivable, inventories, and fixed assets. Financing is used for working capital, in refinancings, acquisitions, leveraged buyouts, reorganizations, restructurings, turnarounds, Chapter 11 financing, and confirmation plans.

The CIT Group/Equipment Financing

Robert J. Merritt
President & CEO
650 CIT Drive
Livingston, New Jersey 07039

Offers middle-market equipment financing including loans, leases, operating leases, revolving lines of credit, portfolio acquisitions, sale and leasebacks, and specialized wholesale and retail financing for distributors, end-users, and manufacturers. It has dedicated service groups focusing on manufacturer financing programs, business aircraft, construction, transportation, medical equipment, pulp and paper, automotive, chemical, high-tech, energy, marine, graphic arts, logging, media, mining, packaging, plastics, and telecommunications.

The CIT Group/Equity Investments and Venture Capital

Paul J. Laud
President
650 CIT Drive
Livingston, NJ 07039

Originates and participates in merger and acquisition transactions, purchasing private equity and equity-related securities, and arranging transaction financing. The units also invest in emerging growth opportunities in selected industries, including information technology, communications, and consumer products.

The CIT Group/Sales Financing

James J. Egan, Jr.
President & CEO
650 CIT Drive
Livingston, NJ 07039

Working through dealers and other intermediaries, it provides retail financing for the purchase of recreation vehicles, manufactured homes, and recreational boat products. It also markets inventory financing to dealers, and works with manufacturers to provide "private label" financing for their dealers. In addition, it purchases consumer receivables "in bulk" and services consumer receivables for third parties.

Specialized Group Multi-National Marketing Group

Naoto Takano
Executive Vice President
1211 Avenue of the Americas
New York, New York 10036

Markets the services of CIT's business units to the U.S. – based subsidiaries of foreign corporations in need of asset-based financing. Assists and supports the worldwide investments of U.S. corporations.

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