KEYCORP /NEW/
Form 10-K
February 24, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

December 31, 2015

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

Ohio	34-6542451
State or other jurisdiction of incorporation or organization:	**IRS Employer Identification Number:**
127 Public Square, Cleveland, Ohio	**44114-1306**
Address of Principal Executive Offices:	**Zip Code:**

(216) 689-3000
Registrant s Telephone Number, including area code:

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Shares, $1 par value	New York Stock Exchange

7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

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

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

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

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

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

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

Large accelerated filer ü	Accelerated filer	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was $12,670,985,551 (based on the June 30, 2015, closing price of KeyCorp common shares of $15.02 as reported on the New York Stock Exchange). As of February 22, 2016, there were 835,606,185 common shares outstanding.

Certain specifically designated portions of KeyCorp s definitive Proxy Statement for its 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Forward-looking Statements

From time to time, we have made or will make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements do not relate strictly to historical or current facts. Forward-looking statements usually can be identified by the use of words such as goal, objective, plan, expect, assume, anticipate, intend, project, believe, estimate, or other words of similar meaning. Forward-looking sta provide our current expectations or forecasts of future events, circumstances, results or aspirations. Our disclosures in this report contain forward-looking statements. We may also make forward-looking statements in other documents filed with or furnished to the SEC. In addition, we may make forward-looking statements orally to analysts, investors, representatives of the media and others.

Forward-looking statements, by their nature, are subject to assumptions, risks, and uncertainties, many of which are outside of our control. Our actual results may differ materially from those set forth in our forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause our actual results to differ from those described in forward-looking statements include, but are not limited to:

¿ deterioration of commercial real estate market fundamentals;

¿ defaults by our loan counterparties or clients;

¿ adverse changes in credit quality trends;

¿ declining asset prices;

¿ our concentrated credit exposure in commercial, financial, and agricultural loans;

¿ the extensive and increasing regulation of the U.S. financial services industry;

¿ changes in accounting policies, standards, and interpretations;

¿ breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;

¿ operational or risk management failures by us or critical third parties;

¿ negative outcomes from claims or litigation;

¿ the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;

¿ increasing capital and liquidity standards under applicable regulatory rules;

¿ unanticipated changes in our liquidity position, including but not limited to, changes in our access to or the cost of funding, our ability to enter the financial markets and to secure alternative funding sources;

¿ our ability to receive dividends from our subsidiary, KeyBank;

¿ downgrades in our credit ratings or those of KeyBank;

¿ a reversal of the U.S. economic recovery due to financial, political or other shocks;

¿ our ability to anticipate interest rate changes and manage interest rate risk;

¿ deterioration of economic conditions in the geographic regions where we operate;

¿ the soundness of other financial institutions;

¿ our ability to attract and retain talented executives and employees and to manage our reputational risks;

¿ our ability to timely and effectively implement our strategic initiatives;

¿ increased competitive pressure due to industry consolidation;

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¿ unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses;

¿ our ability to complete the acquisition of First Niagara and to realize the anticipated benefits of the merger; and

¿ our ability to develop and effectively use the quantitative models we rely upon in our business planning.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in our SEC filings, including this report on Form 10-K and our subsequent reports on Forms 10-Q and 8-K and our registration statements under the Securities Act of 1933, as amended, all of which are or will upon filing be accessible on the SEC s website at www.sec.gov and on our website at www.key.com/ir.

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KEYCORP

2015 FORM 10-K ANNUAL REPORT

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PART I

ITEM 1. BUSINESS

Overview

KeyCorp, organized in 1958 under the laws of the State of Ohio, is headquartered in Cleveland, Ohio. We are a BHC under the BHCA and one of the nation s largest bank-based financial services companies, with consolidated total assets of approximately $95.1 billion at December 31, 2015. KeyCorp is the parent holding company for KeyBank National Association (KeyBank), its principal subsidiary, through which most of our banking services are provided. Through KeyBank and certain other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance, commercial mortgage servicing and special servicing, and investment banking products and services to individual, corporate, and institutional clients through two major business segments: Key Community Bank and Key Corporate Bank.

As of December 31, 2015, these services were provided across the country through KeyBank s 966 full-service retail banking branches and a network of 1,256 ATMs in 12 states, as well as additional offices, online and mobile banking capabilities, and a telephone banking call center. Additional information pertaining to our two business segments is included in the Line of Business Results section in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this report, and in Note 23 (Line of Business Results) of the Notes to Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data, which are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 13,483 full-time equivalent employees for 2015.

In addition to the customary banking services of accepting deposits and making loans, our bank and trust company subsidiaries offer personal, securities lending and custody services, personal financial services, access to mutual funds, treasury services, investment banking and capital markets products, and international banking services. Through our bank, trust company, and registered investment adviser subsidiaries, we provide investment management services to clients that include large corporate and public retirement plans, foundations and endowments, high-net-worth individuals, and multi-employer trust funds established for providing pension or other benefits to employees.

We provide other financial services both within and outside of our primary banking markets through various nonbank subsidiaries. These services include community development financing, securities underwriting, and brokerage. We also provide merchant services to businesses directly and through an equity participation in a joint venture.

KeyCorp is a legal entity separate and distinct from its banks and other subsidiaries. Accordingly, the right of KeyCorp, its security holders, and its creditors to participate in any distribution of the assets or earnings of its banks and other subsidiaries is subject to the prior claims of the creditors of such banks and other subsidiaries, except to the extent that KeyCorp s claims in its capacity as a creditor may be recognized.

Important Terms Used in this Report

As used in this report, references to Key, we, our, us and similar terms refer to the consolidated entity consisting of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers solely to KeyCorp s subsidiary bank, KeyBank National Association. KeyBank (consolidated) refers to the consolidated entity consisting of KeyBank and its subsidiaries.

The acronyms and abbreviations identified in Part II, Item 8. Note 1 (Summary of Significant Accounting Policies) hereof are used throughout this report, particularly in the Notes to Consolidated Financial Statements as well as in Management s Discussion and Analysis of Financial Condition and Results of Operations. You may find it helpful to refer to that section as you read this report.

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Demographics

We have two major business segments: Key Community Bank and Key Corporate Bank.

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit, investment, lending, credit card, and personalized wealth management products and business advisory services. These products and services are provided through our relationship managers and specialists working in our 12-state branch network, which is organized into eight internally defined geographic regions: Pacific, Rocky Mountains, Indiana, Western Ohio and Michigan, Eastern Ohio, Western New York, Eastern New York, and New England. In addition, some of these product capabilities are delivered by Key Corporate Bank to clients of Key Community Bank.

The following table presents the geographic diversity of Key Community Bank s average deposits, commercial loans, and home equity loans.

Geographic Region

fic	Rocky Mountains	Indiana	West Ohio/ Michigan	East Ohio	Western New York	Eastern New York	New England	NonRegion
81	$ 5,262	$ 2,368	$ 4,477	$ 9,514	$ 4,915	$ 7,739	$ 2,889	$ 2,019
.4 %	10.3 %	4.6 %	8.8 %	18.6 %	9.6 %	15.1 %	5.7 %	3.9
25	$ 1,734	$ 851	$ 1,155	$ 2,334	$ 622	$ 1,855	$ 820	$ 3,164
.9 %	10.8 %	5.3 %	7.2 %	14.5 %	3.9 %	11.6 %	5.1 %	19.7
63	$ 1,563	$ 496	$ 835	$ 1,263	$ 831	$ 1,276	$ 658	$ 81
.8 %	15.2 %	4.8 %	8.2 %	12.3 %	8.1 %	12.4 %	6.4 %	.8

(a) Represents average deposits, commercial loan products, and home equity loan products centrally managed outside of our eight Key Community Bank regions.

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in seven industry sectors: consumer, energy, healthcare, industrial, public sector, real estate, and technology. Key Corporate Bank delivers a broad suite of banking and capital markets products to its clients, including syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, financial advisory, and public finance. Key Corporate Bank is also a significant servicer of commercial mortgage loans and a significant special servicer of CMBS. Key Corporate Bank delivers many of its product capabilities to clients of Key Community Bank.

Further information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments is included in this report in Note 23 (Line of Business Results).

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Additional Information

The following financial data is included in this report in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, and is incorporated herein by reference as indicated below:

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Our executive offices are located at 127 Public Square, Cleveland, Ohio 44114-1306, and our telephone number is (216) 689-3000. Our website is www.key.com, and the investor relations section of our website may be reached through www.key.com/ir. We make available free of charge, on or through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website, and available in print upon request from any shareholder to our Investor Relations Department, are the charters for our Audit Committee, Compensation and Organization Committee, Executive Committee, Nominating and Corporate Governance Committee, and Risk Committee; our Corporate Governance Guidelines; the Code of Ethics for our directors, officers, and employees; our Standards for Determining Independence of Directors; our policy for Review of Transactions Between KeyCorp and Its Directors, Executive Officers and Other Related Persons; and our Statement of Political Activity. Within the time period required by the SEC and the NYSE, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any senior executive officer or director. We also make available a summary of filings made with the SEC of statements of beneficial ownership of our equity securities filed by our directors and officers under Section 16 of the Exchange Act. The Regulatory Disclosures and Filings tab of the investor relations section of our website includes public disclosures concerning our annual and mid-year stress-testing activities under the Dodd-Frank Act and our quarterly regulatory capital disclosures under the third pillar of Basel III.

Information contained on or accessible through our website or any other website referenced in this report is not part of this report. References to websites in this report are intended to be inactive textual references only.

Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, KeyCorp, 127 Public Square, Mailcode OH-01-27-0737, Cleveland, Ohio 44114-1306; by calling (216) 689-4221; or by sending an e-mail to investor_relations@keybank.com.

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Acquisitions and Divestitures

On October 30, 2015, we announced that KeyCorp entered into a definitive agreement and plan of merger pursuant to which KeyCorp will acquire all of the outstanding capital stock of First Niagara. The merger is currently expected to be completed during the third quarter of 2016 and is subject to customary closing conditions, including the approval of regulators and the shareholders of both KeyCorp and First Niagara. For more information on the First Niagara acquisition and other acquisitions and divestitures by Key, see Note 13 (Acquisitions and Discontinued Operations), which is incorporated herein by reference.

Competition

The market for banking and related financial services is highly competitive. Key competes with other providers of financial services, such as BHCs, commercial banks, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers, and other local, regional, national, and global institutions that offer financial services. Some of our competitors are larger and may have more financial resources, while some of our competitors enjoy fewer regulatory constraints and may have lower cost structures. The financial services industry has become more competitive as technology advances have lowered barriers to entry, enabling more companies, including nonbank companies, to provide financial services. Technological advances may diminish the importance of depository institutions and other financial institutions. We compete by offering quality products and innovative services at competitive prices, and by maintaining our product and service offerings to keep pace with customer preferences and industry standards.

Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key s core banking products and services.

Executive Officers of KeyCorp

KeyCorp s executive officers are principally responsible for making policy for KeyCorp, subject to the supervision and direction of the Board. All executive officers are subject to annual election at the annual organizational meeting of the Board held each May.

Set forth below are the names and ages of the executive officers of KeyCorp as of December 31, 2015, the positions held by each at KeyCorp during the past five years, and the year each first became an executive officer of KeyCorp. Because Messrs. Buffie, Devine, and Kimble and Ms. Brady have been employed at KeyCorp for less than five years, information is being provided concerning their prior business experience. There are no family relationships among the directors or the executive officers.

Amy G. Brady (49) Ms. Brady is KeyCorp s Chief Information Officer, serving in that role since May 2012. Prior to joining KeyCorp, Ms. Brady spent 25 years with Bank of America (a financial services institution), where she most recently served as Senior Vice President and Chief Information Officer, Enterprise Technology and Operations, supporting technology delivery and operations for crucial enterprise functions. Ms. Brady has been an executive officer of KeyCorp since she joined in 2012.

Craig A. Buffie (55) Mr. Buffie has been KeyCorp s Chief Human Resources Officer since February 2013. Prior to joining KeyCorp, Mr. Buffie was employed for 27 years with Bank of America (a financial services institution), where he served in numerous human resources positions, including as a human resources executive for technology and operations for consumer and small business, as well as for its corporate and investment bank. Most recently, he was

Head of Home Loan Originations for Bank of America. Mr. Buffie has been an executive officer of KeyCorp since joining in 2013.

Edward J. Burke (59) Mr. Burke has been the Co-President, Commercial and Private Banking of Key Community Bank since April 2014 and an executive officer of KeyCorp since May 2014. From 2005 until his election as Co-President, Mr. Burke was an Executive Vice President and head of KeyBank Real Estate Capital and Key Community Development Lending.

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Dennis A. Devine (44) Mr. Devine has been the Co-President, Consumer and Small Business of Key Community Bank since April 2014 and an executive officer of KeyCorp since May 2014. From 2012 to 2014, Mr. Devine served as Executive Vice President in various roles, including as head of the Consumer & Small Business Segment and head of Integrated Channels and Community Bank Strategy for Key Community Bank. Prior to joining Key in 2012, Mr. Devine served in various executive capacities with Citizens Financial Group and PNC Bank (financial services institutions).

Trina M. Evans (51) Ms. Evans has been the Director of Corporate Center for KeyCorp since August 2012, partnering with Key s executive leadership team and Board to ensure alignment of strategy, objectives, priorities, and messaging across Key. Prior to this role, Ms. Evans was the Chief Administrative Officer for Key Community Bank and the Director of Client Experience for KeyBank. During her career with KeyCorp, she has served in a variety of senior management roles associated with the call center, internet banking, retail banking, distribution management and information technology. She became an executive officer of KeyCorp in March 2013.

Robert A. DeAngelis (54) Mr. DeAngelis has been the Director of the Enterprise Program Management Office for KeyCorp since November 2011, providing leadership for KeyCorp s large-scale, organization-wide initiatives. He previously served as the Consumer Segment executive with responsibility for developing client strategies and programs for Key s Community Bank Consumer and Small Business segments. He became an executive officer of KeyCorp in March 2013.

Christopher M. Gorman (55) Mr. Gorman has been the President of Key Corporate Bank since 2010. He previously served as a KeyCorp Senior Executive Vice President and head of Key National Banking during 2010. Mr. Gorman was an Executive Vice President of KeyCorp (2002 to 2010) and served as President of KeyBanc Capital Markets (2003 to 2010). He became an executive officer of KeyCorp in 2010.

Paul N. Harris (57) Mr. Harris has been the General Counsel and Secretary of KeyCorp since 2003 and an executive officer of KeyCorp since 2004.

William L. Hartmann (62) Mr. Hartmann has been the Chief Risk Officer of KeyCorp since July 2012. Mr. Hartmann joined KeyCorp in 2010 as its Chief Credit Officer. Mr. Hartmann has been an executive officer of KeyCorp since 2012.

Donald R. Kimble (55) Mr. Kimble has been the Chief Financial Officer of KeyCorp since June 2013. Prior to joining KeyCorp, Mr. Kimble served as Chief Financial Officer of Huntington Bancshares Inc., a bank holding company headquartered in Columbus, Ohio, after joining the company in August 2004, and also served as its Controller from August 2004 to November 2009. Mr. Kimble was also President and a director of Huntington Preferred Capital, Inc., a publicly-traded company, from August 2004 until May 2013. Mr. Kimble became an executive officer upon joining KeyCorp in June 2013.

Beth E. Mooney (60) Ms. Mooney has been the Chairman and Chief Executive Officer of KeyCorp since 2011, and an executive officer of KeyCorp since 2006. Prior to becoming Chairman and Chief Executive Officer, she served in a variety of roles with KeyCorp, including President and Chief Operating Officer and Vice Chair and head of Key Community Bank. Prior to joining KeyCorp, she served in a number of executive and senior finance roles with banks and bank holding companies across the United States. She has been a director of AT&T, a publicly-traded telecommunications company, since 2013.

Douglas M. Schosser (45) Mr. Schosser has been the Chief Accounting Officer and an executive officer of KeyCorp since May 2015. Prior to becoming the Chief Accounting Officer, Mr. Schosser served as an Integration Manager at

KeyCorp. From 2010 to 2014, he served as the Chief Financial Officer of Key Corporate Bank.

Supervision and Regulation

The regulatory framework applicable to BHCs and banks is intended primarily to protect customers and depositors, the DIF, consumers, taxpayers and the banking system as a whole, rather than to protect the security holders and creditors of financial services companies. Comprehensive reform of the legislative and regulatory environment for financial services companies occurred in 2010 and remains ongoing. We cannot predict changes in applicable laws, regulations or regulatory agency policies, but such changes may materially affect our business, financial condition, results of operations, or access to liquidity or credit.

Overview

As a BHC, KeyCorp is subject to regulation, supervision, and examination by the Federal Reserve under the BHCA. Under the BHCA, BHCs generally may not directly or indirectly own or control more than 5% of the voting shares, or substantially all of the assets, of any bank, without prior approval by the Federal Reserve. In addition, BHCs are generally prohibited from engaging in commercial or industrial activities.

Under federal law, a BHC must serve as a source of financial strength to its subsidiary depository institutions by providing financial assistance to them in the event of their financial distress. This support may be required when we do not have the resources to, or would prefer not to, provide it. Certain loans by a BHC to a subsidiary bank are subordinate in right of payment to deposits in, and certain other indebtedness of, the subsidiary bank. In addition, federal law provides that in the bankruptcy of a BHC, any commitment by the BHC to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Federal law establishes a system of regulation under which the Federal Reserve is the umbrella regulator for BHCs, while their subsidiaries are principally regulated by prudential and functional regulators: 1) the OCC for national banks and federal savings associations; 2) the FDIC for non-member state banks and savings associations; 3) the Federal Reserve for member state banks; 4) the CFPB for consumer financial products or services; 5) the SEC and FINRA for securities broker/dealer activities; 6) the SEC, CFTC, and NFA for swaps and other derivatives; and 7) state insurance regulators for insurance activities. Certain specific activities, including traditional bank trust and fiduciary activities, may be conducted in a bank without the bank being deemed a broker or a dealer in securities for purposes of securities functional regulation. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in certain identifiable risks.

Our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the OCC. At December 31, 2015, we operated one full-service, FDIC-insured national bank subsidiary, KeyBank, and one national bank subsidiary that is limited to fiduciary activities. The FDIC also has certain regulatory, supervisory and examination authority over KeyBank and KeyCorp under the FDIA and the Dodd-Frank Act.

We have other financial services subsidiaries that are subject to regulation, supervision and examination by the Federal Reserve, as well as other applicable state and federal regulatory agencies and self-regulatory organizations. Because KeyBank engages in derivative transactions, in 2013 it provisionally registered as a swap dealer with the CFTC and became a member of the NFA, the self-regulatory organization for participants in the U.S. derivatives industry. Our securities brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, FINRA, and state securities regulators, and our insurance subsidiaries are subject to regulation by the insurance regulatory authorities of the states in which they operate. Our other nonbank subsidiaries are subject to laws and regulations of both the federal government and the various states in which they are authorized to do business.

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Regulatory capital and liquidity

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to Key and KeyBank (consolidated). The adequacy of regulatory capital is assessed periodically by federal banking agencies in their examination and supervision processes, and in the evaluation of applications in connection with certain expansion activities.

Regulatory capital requirements prior to January 1, 2015

At December 31, 2014, the minimum risk-based capital requirements adopted by federal banking regulators were based on a 1988 international accord (Basel I) developed by the Basel Committee on Banking Supervision (the Basel Committee). Prior to January 2015, Key and KeyBank (consolidated) were generally required to maintain a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital had to be Tier 1 capital, which consists of qualifying perpetual preferred stock, common shareholders equity (excluding AOCI other than the cumulative effect of foreign currency translation), a limited amount of qualifying trust preferred securities, and certain mandatorily convertible preferred securities. The remainder could consist of Tier 2 capital, including qualifying subordinated debt, certain hybrid capital instruments, perpetual debt, mandatory convertible debt instruments, qualifying perpetual preferred stock, and a limited amount of the allowance for credit losses. BHCs and banks with securities and commodities trading activities exceeding specified levels were required to maintain capital to cover their market risk exposure. Federal banking regulators also established a minimum leverage ratio requirement for banking organizations. The leverage ratio is Tier 1 capital divided by adjusted average total assets. At December 31, 2014, the minimum leverage ratio was 3% for BHCs and national banks that are considered strong by the Federal Reserve or the OCC, respectively, 3% for any BHC that had implemented the Federal Reserve s risk-based capital measure for market risk, and 4% for all other BHCs and national banks. At December 31, 2014, the minimum leverage ratio for Key and KeyBank (consolidated) was 3% and 4%, respectively. BHCs and national banks may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile, or growth plans. As presented in Note 22 (Shareholders Equity), at December 31, 2014, Key and KeyBank (consolidated) had regulatory capital in excess of all applicable minimum risk-based capital (including all adjustments for market risk) and leverage ratio requirements.

Basel III capital and liquidity frameworks

In December 2010, the Basel Committee released its final framework to strengthen international capital regulation of banks, and revised it in June 2011 and January 2014 (as revised, the Basel III capital framework). The Basel III capital framework requires higher and better-quality capital, better risk coverage, the introduction of a new leverage ratio as a backstop to the risk-based requirement, and measures to promote the buildup of capital that can be drawn down in periods of stress. The Basel III capital framework, among other things, introduces a new capital measure, Common Equity Tier 1, to be included in Tier 1 capital with other capital instruments meeting specified requirements, a capital conservation buffer, and a countercyclical capital buffer. The Basel III capital framework is being phased-in over a multi-year period.

In November 2011, the Basel Committee issued its final rule for a common equity surcharge on certain designated global systemically important banks (G-SIBs), which was revised in July 2013 (as revised, Basel G-SIB framework). Under the Basel G-SIB framework, a G-SIB is assessed a progressive 1.0% to 3.5% surcharge to the Common Equity Tier 1 capital conservation buffer based upon the bank s systemic importance score. In July 2015, the Federal Reserve adopted a final rule to implement the common equity surcharge on U.S. G-SIBS. The final rule was effective December 1, 2015, although the surcharge, which will be added to the capital conservation buffer under the Regulatory Capital Rules, will be phased in during the January 1, 2016, through January 1, 2019, period. This final

rule applies to advanced approaches banking organizations, not standardized approach banking organizations like Key.

The Basel Committee published its international liquidity standards in 2010, and revised them in January 2013, January 2014, and October 2014 (as revised, the Basel III liquidity framework). It established quantitative standards for liquidity by introducing a liquidity coverage ratio (Basel III LCR) and a net stable funding ratio (Basel III NSFR). The Basel Committee published final Basel III NSFR disclosure standards in June 2015.

The Basel III LCR, calculated as the ratio of the stock of high-quality liquid assets divided by total net cash outflows over 30 consecutive calendar days, must be at least 100%. The implementation of Basel III LCR began on January 1, 2015, with minimum requirements beginning at 60%, rising in annual steps of 10% until full implementation on January 1, 2019.

The Basel III NSFR, calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding, must be at least 100%. The Basel III NSFR becomes effective on January 1, 2018.

U.S. implementation of the Basel III capital framework

In October 2013, the federal banking regulators published the final Basel III capital framework for U.S. banking organizations (the Regulatory Capital Rules), which generally implement the Basel III capital framework as described above in the United States. Under the Regulatory Capital Rules, certain large U.S.-domiciled BHCs and banks (each, an advanced approaches banking organization) must satisfy minimum qualifying criteria using organization-specific internal risk measures and management processes for calculating risk-based capital requirements as well as follow certain methodologies to calculate their total risk-weighted assets. Since neither KeyCorp nor KeyBank has at least $250 billion in total consolidated assets or at least $10 billion of total on-balance sheet foreign exposure, neither KeyCorp nor KeyBank is an advanced approaches banking organization. Instead, each of them is a standardized approach banking organization.

New minimum capital and leverage ratio requirements

Under the Regulatory Capital Rules, a standardized approach banking organization, like KeyCorp, is required to meet the minimum capital and leverage ratios set forth in the following table. At December 31, 2015, Key had an estimated Common Equity Tier 1 Capital Ratio of 10.85% under the fully phased-in Regulatory Capital Rules. Also at December 31, 2015, based on the fully phased-in Regulatory Capital Rules, Key estimates that its capital and leverage ratios, after adjustment for market risk, would be as set forth in the following table.

Estimated Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In

Regulatory Capital Rules

Ratios (including Capital conservation buffer)	**Key December 31, 2015 Estimated**		**Minimum January 1, 2015**		**Phase-in Period**	**Minimum January 1, 2019**	
Common Equity Tier 1 [(a)]	10.84	%	4.5	%	None	4.5	%
Capital conservation buffer [(b)]					1/1/16 - 1/1/19	2.5	
Common Equity Tier 1 + Capital conservation buffer			4.5		1/1/16 - 1/1/19	7.0	

Tier 1 Capital	11.15	6.0	None	6.0
Tier 1 Capital + Capital conservation buffer		6.0	1/1/16 - 1/1/19	8.5
Total Capital	12.85	8.0	None	8.0
Total Capital + Capital conservation buffer		8.0	1/1/16 - 1/1/19	10.5
Leverage [c]	10.59	4.0	None	4.0

(a) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computation for estimated Common Equity Tier 1. The table reconciles the GAAP performance measure to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.

(b) Capital conservation buffer must consist of Common Equity Tier 1 capital. As a standardized approach banking organization, KeyCorp is not subject to the countercyclical capital buffer of up to 2.5% imposed upon an advanced approaches banking organization under the Regulatory Capital Rules.

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

Revised prompt corrective action capital category ratios

Federal prompt corrective action regulations under the FDIA group FDIC-insured depository institutions into one of five prompt corrective action capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. In addition to implementing the Basel III capital framework in the U.S., the Regulatory Capital Rules also revised the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions such as KeyBank effective January 1, 2015. The Revised Prompt Corrective Action Rules table below identifies the capital category threshold ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules.

Well Capitalized and Adequately Capitalized Capital Category Ratios under

Revised Prompt Corrective Action Rules

Prompt Corrective Action Ratio	Capital Category	
	Well Capitalized [a]	Adequately Capitalized
Common Equity Tier 1 Risk-Based	6.5 %	4.5 %
Tier 1 Risk-Based	8.0	6.0
Total Risk-Based	10.0	8.0
Tier 1 Leverage [b]	5.0	4.0

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

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

We believe that, as of December 31, 2015, KeyBank (consolidated) met all revised well capitalized prompt corrective action capital and leverage ratio requirements under the Regulatory Capital Rules. The prompt corrective action regulations, however, apply only to FDIC-insured depository institutions (like KeyBank) and not to BHCs (like KeyCorp). Moreover, since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyBank.

U.S. implementation of the Basel III liquidity framework

In October 2014, the federal banking agencies published the final Basel III liquidity framework for U.S. banking organizations (the Liquidity Coverage Rules) that create a minimum LCR for certain internationally active bank and nonbank financial companies (excluding KeyCorp) and a modified version of the LCR (Modified LCR) for BHCs and other depository institution holding companies with over $50 billion in consolidated assets that are not internationally active (including KeyCorp).

KeyBank will not be subject to the LCR or the Modified LCR under the Liquidity Coverage Rules unless the OCC affirmatively determines that application to KeyBank is appropriate in light of KeyBank s asset size, level of

complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system. The LCR and Modified LCR created by the Liquidity Coverage Rules are also an enhanced prudential liquidity standard consistent with the Dodd-Frank Act.

Because KeyCorp is a Modified LCR BHC under the Liquidity Coverage Rules, Key is required to maintain its ratio of high-quality liquid assets to its total net cash outflow amount, determined by prescribed assumptions in a

standardized hypothetical stress scenario over a 30-calendar day period, at least at 90% by January 1, 2016, and at least at 100% by January 1, 2017. At December 31, 2015, Key s estimated Modified LCR was above 100%. In the future, Key may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings to enhance or optimize our liquidity position. Calculation of Key s Modified LCR is required on a monthly basis, unlike on a daily basis for those U.S. banking organizations that are subject to the LCR rather than the Modified LCR. On December 1, 2015, the Federal Reserve published an NPR requesting public comment on a proposed rule that would implement quarterly quantitative and qualitative public disclosure requirements regarding the LCR. The proposed rule would require compliance with these requirements beginning on January 1, 2018, for Modified LCR BHCs like KeyCorp. Comments on the NPR were due by February 2, 2016.

The federal banking regulators have not yet issued any proposal to implement either the final Basel III NSFR or the final Basel III NSFR disclosure standards.

Capital planning and stress testing

The Federal Reserve s capital plan rule requires each U.S.-domiciled, top-tier BHC with total consolidated assets of at least $50 billion (like KeyCorp) to develop and maintain a written capital plan supported by a robust internal capital adequacy process. The capital plan must be submitted annually to the Federal Reserve for supervisory review in connection with its annual CCAR. The supervisory review includes an assessment of many factors, including Key s ability to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout the planning horizon. KeyCorp is also subject to the Federal Reserve s supervisory expectations for capital planning and capital positions as a large, noncomplex BHC. These expectations are set forth in the Federal Reserve s guidance issued on December 18, 2015 (SR Letter 15-19). Under SR Letter 15-19, the Federal Reserve identifies its core capital planning expectations regarding governance, risk management, internal controls, capital policy, capital positions, incorporating stressful conditions and events, and estimating impact on capital positions for large and noncomplex firms building upon the capital planning requirements under its capital plan and stress test rules. SR Letter 15-19 also provides detailed supervisory expectations on such a firm s capital planning processes.

The Federal Reserve s annual CCAR is an intensive assessment of the capital adequacy of large, complex U.S. BHCs and of the practices these BHCs use to assess their capital needs. The Federal Reserve expects BHCs subject to CCAR to have sufficient capital to withstand a severely adverse operating environment and to be able to continue operations, maintain ready access to funding, meet obligations to creditors and counterparties, and serve as credit intermediaries.

KeyCorp filed its 2015 CCAR capital plan on January 5, 2015. KeyCorp is required to submit its 2016 CCAR capital plan by April 6, 2016. The Federal Reserve has indicated that it will announce the results of its supervisory stress tests by June 30, 2016, with the exact date to be announced before then.

As part of the annual CCAR, the Federal Reserve conducts an annual supervisory stress test on KeyCorp. As part of this test, the Federal Reserve projects revenue, expenses, losses, and resulting post-stress capital levels and regulatory capital ratios under conditions that affect the U.S. economy or the financial condition of KeyCorp, including supervisory baseline, adverse, and severely adverse scenarios, that are determined annually by the Federal Reserve. The 2015 CCAR results, which included the annual supervisory stress test methodology and certain firm-specific results for the participating covered companies (including KeyCorp), were publicly released by the Federal Reserve in March 2015.

In December 2015, the Federal Reserve published amendments to its capital plan and stress test rules. Under the amendments, for a standardized approach BHC like KeyCorp, the Federal Reserve has removed the Tier 1 common

capital ratio requirement as well as modified certain mandatory capital action assumptions. The modifications to the mandatory capital action assumptions include the requirement for the BHC to assume in its

stress tests that: (i) it issues capital associated with funding a planned acquisition or merger to the extent the merger or acquisition is reflected in the BHC s pro forma balance sheet estimates, and (ii) it pays planned dividends on any issuance of stock related to expensed employee compensation. The modifications also incorporate the deduction from Tier 1 capital of a BHC s investment in certain hedge funds and private equity funds that are covered by section 619 of the Dodd-Frank Act, known as the Volcker Rule.

KeyCorp and KeyBank must also conduct their own company-run stress tests to assess the impact of stress scenarios (including supervisor-provided baseline, adverse, and severely adverse scenarios and, for KeyCorp, one KeyCorp-defined baseline scenario and at least one KeyCorp-defined stress scenario) on their consolidated earnings, losses, and capital over a nine-quarter planning horizon, taking into account their current condition, risks, exposures, strategies, and activities. While KeyBank must only conduct an annual stress test, KeyCorp must conduct both an annual and a mid-cycle stress test. KeyCorp and KeyBank are required to report the results of their annual stress tests to the Federal Reserve and OCC. KeyCorp is required to report the results of its mid-cycle stress test to the Federal Reserve. KeyCorp and KeyBank published the results of their company-run annual stress test on March 5, 2015. KeyCorp published the results of its company-run mid-cycle stress test on July 28, 2015. Summaries of the results of these company-run stress tests are disclosed each year under the Regulatory Disclosure tab of Key s Investor Relations website: http://www.key.com/ir.

Dividend restrictions

Federal banking law and regulations impose limitations on the payment of dividends by our national bank subsidiaries, (like KeyBank). Historically, dividends paid by KeyBank have been an important source of cash flow for KeyCorp to pay dividends on its equity securities and interest on its debt. Dividends by our national bank subsidiaries are limited to the lesser of the amounts calculated under an earnings retention test and an undivided profits test. Under the earnings retention test, without the prior approval of the OCC, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year s net income combined with the retained net income of the two preceding years. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits. Moreover, under the FDIA, an insured depository institution may not pay a dividend if the payment would cause it to be in a less than adequately capitalized prompt corrective action capital category or if the institution is in default in the payment of an assessment due to the FDIC. For more information about the payment of dividends by KeyBank to KeyCorp, please see Note 3 (Restrictions on Cash, Dividends and Lending Activities) in this report.

FDIA, Resolution Authority and Financial Stability

Deposit insurance and assessments

The DIF provides insurance coverage for domestic deposits funded through assessments on insured depository institutions like KeyBank. The amount of deposit insurance coverage for each depositor s deposits is $250,000 per depository.

The FDIC must assess the premium based on an insured depository institution s assessment base, calculated as its average consolidated total assets minus its average tangible equity. KeyBank s current annualized premium assessments can range from $.025 to $.45 for each $100 of its assessment base. The rate charged depends on KeyBank s performance on the FDIC s large and highly complex institution risk-assessment scorecard, which includes factors such as KeyBank s regulatory rating, its ability to withstand asset and funding-related stress, and the relative magnitude of potential losses to the FDIC in the event of KeyBank s failure.

In November 2015, the FDIC published an NPR and request for comments proposing to impose a surcharge, as required by the Dodd-Frank Act, on the quarterly deposit insurance assessments of insured depository institutions having total consolidated assets of at least $10 billion (like KeyBank). Such surcharge would begin the calendar quarter after the DIF reserve ratio first reaches or exceeds 1.15% and would continue through the quarter that it

first reaches or exceeds 1.35%. At September 30, 2015, the DIF reserve ratio was 1.09%. The surcharge would equal an annual rate of 0.00045% applied to the institution s assessment base (with certain adjustments). The FDIC expects that these surcharges will commence in 2016 and that they should be sufficient to raise the DIF reserve ratio to 1.35% in approximately eight quarters (i.e., before the end of 2018). If, contrary to the FDIC s expectations, the DIF reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC would impose a shortfall assessment on insured depository institutions with total consolidated assets of at least $10 billion (like KeyBank) on March 31, 2019. The comment period for the NPR expired in early January 2016.

Conservatorship and receivership of insured depository institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed as receiver or, in rare circumstances, conservator for the insolvent institution under the FDIA. In an insolvency, the FDIC may repudiate or disaffirm any contract to which the institution is a party if the FDIC determines that performance of the contract would be burdensome and that disaffirming or repudiating the contract would promote orderly administration of the institution s affairs. If the contractual counterparty made a claim against the receivership (or conservatorship) for breach of contract, the amount paid to the counterparty would depend upon, among other factors, the receivership (or conservatorship) assets available to pay the claim and the priority of the claim relative to others. In addition, the FDIC may enforce most contracts entered into by the insolvent institution, notwithstanding any provision that would terminate, cause a default, accelerate or give other rights under the contract solely because of the insolvency, the appointment of the receiver (or conservator), or the exercise of rights or powers by the receiver (or conservator). The FDIC may also transfer any asset or liability of the insolvent institution without obtaining approval or consent from the institution s shareholders or creditors. These provisions would apply to obligations and liabilities of KeyCorp s insured depository institution subsidiaries, such as KeyBank, including obligations under senior or subordinated debt issued to public investors.

Receivership of certain SIFIs

The Dodd-Frank Act created a new resolution regime, as an alternative to bankruptcy, known as the orderly liquidation authority (OLA) for certain SIFIs, including BHCs and their affiliates. Under the OLA, the FDIC would generally be appointed as receiver to liquidate and wind up a failing SIFI. The determination that a SIFI should be placed into OLA receivership is made by the U.S. Treasury Secretary, who must conclude that the SIFI is in default or in danger of default and that the SIFI s failure poses a risk to the stability of the U.S. financial system. This determination must come after supermajority recommendations by the Federal Reserve and the FDIC, and consultation between the U.S. Treasury Secretary and the President.

If the FDIC is appointed as receiver under the OLA, its powers and the rights and obligations of creditors and other relevant parties would be determined exclusively under the OLA. The powers of a receiver under the OLA are generally based on the FDIC s powers as receiver for insured depository institutions under the FDIA. Certain provisions of the OLA were modified to reduce disparate treatment of creditors claims between the U.S. Bankruptcy Code and the OLA. However, substantial differences between the two regimes remain, including the FDIC s right to disregard claim priority in some circumstances, the use of an administrative claims procedure under OLA to determine creditors claims (rather than a judicial procedure in bankruptcy), the FDIC s right to transfer claims to a bridge entity, and limitations on the ability of creditors to enforce contractual cross-defaults against potentially viable affiliates of the entity in receivership. OLA liquidity would be provided through credit support from the U.S. Treasury and assessments made, first, on claimants against the receivership that received more in the OLA resolution than they would have received in ordinary liquidation (to the full extent of the excess), and second, if necessary, on SIFIs, like KeyCorp, utilizing a risk-based methodology.

In December 2013, the FDIC published a notice for comment regarding its single point of entry resolution strategy under the OLA. This strategy involves the appointment of the FDIC as receiver for the SIFI s top-level U.S. holding company only, while permitting the operating subsidiaries of the failed holding company to

continue operations uninterrupted. As receiver, the FDIC would establish a bridge financial company for the failed holding company and would transfer the assets and a very limited set of liabilities of the receivership estate. The claims of unsecured creditors and other claimants in the receivership would be satisfied by the exchange of their claims for the securities of one or more new holding companies emerging from the bridge company. The FDIC has not taken any subsequent regulatory action relating to this resolution strategy under OLA since the comment period ended in March 2014.

Depositor preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of its depositors (including claims of its depositors that have subrogated to the FDIC) and certain claims for administrative expenses of the FDIC as receiver have priority over other general unsecured claims. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will be placed ahead of unsecured, nondeposit creditors, including the institution s parent BHC and subordinated creditors, in order of priority of payment.

Resolution plans

BHCs with at least $50 billion in total consolidated assets, like KeyCorp, are required to periodically submit to the Federal Reserve and FDIC a plan discussing how the company could be rapidly and orderly resolved if the company failed or experienced material financial distress. Insured depository institutions with at least $50 billion in total consolidated assets, like KeyBank, are also required to submit a resolution plan to the FDIC. These plans are due annually by December 31 of each year. For 2015, these resolution plans, the third required from KeyCorp and KeyBank, were submitted on December 1, 2015. Annually, in January, the Federal Reserve and FDIC make available on their websites the public sections of resolution plans for the companies, including KeyCorp and KeyBank, that submitted plans in the prior December. The public section of the resolution plans of KeyCorp and KeyBank is available at http://www.federalreserve.gov/bankinforeg/resolution-plans.htm and https://www.fdic.gov/regulations/reform/resplans/.

Financial Stability Oversight Council

The Dodd-Frank Act created the FSOC, a systemic risk oversight body, to: (i) identify risks to U.S. financial stability that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected SIFIs, or that could arise outside the financial services marketplace, (ii) promote market discipline by eliminating expectations that the U.S. government will shield shareholders, creditors, and counterparties from losses in the event of failure, and (iii) respond to emerging threats to the stability of the U.S. financial system. The FSOC is responsible for facilitating regulatory coordination, information collection and sharing, designating nonbank financial companies for consolidated supervision by the Federal Reserve, designating systemic financial market utilities and systemic payment, clearing, and settlement activities requiring prescribed risk management standards and heightened federal regulatory oversight, recommending stricter standards for SIFIs, and, together with the Federal Reserve, determining whether action should be taken to break up firms that pose a grave threat to U.S. financial stability.

The Bank Secrecy Act

The BSA requires all financial institutions (including banks and securities broker-dealers) to, among other things, maintain a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence and know-your-customer documentation requirements. Key has established and maintains an anti-money laundering program to comply with the BSA s requirements.

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Other Regulatory Developments under the Dodd-Frank Act

Consumer Financial Protection Bureau

Title X of the Dodd-Frank Act created the CFPB, a consumer financial services regulator with supervisory authority over banks and their affiliates with assets of more than $10 billion, like Key, to carry out federal consumer protection laws. The CFPB also regulates financial products and services sold to consumers and has rulemaking authority with respect to federal consumer financial laws. Any new regulatory requirements promulgated by the CFPB or modifications in the interpretations of existing regulations could require changes to Key s consumer-facing businesses. The Dodd-Frank Act also gives the CFPB broad data collecting powers for fair lending for both small business and mortgage loans, as well as extensive authority to prevent unfair, deceptive and abusive practices.

Volcker Rule

The Volcker Rule implements Section 619 of the Dodd-Frank Act. The Volcker Rule prohibits banking entities, such as KeyCorp, KeyBank and their affiliates and subsidiaries, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds (referred to as covered funds) and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

The Volcker Rule excepts certain transactions from the general prohibition against proprietary trading, including transactions in government securities (e.g., U.S. Treasuries or any instruments issued by the GNMA, FNMA, FHLMC, a Federal Home Loan Bank, or any state or a political division of any state, among others); transactions in connection with underwriting or market-making activities; and, transactions as a fiduciary on behalf of customers. Banking entities may also engage in risk-mitigating hedges if the entity can demonstrate that the hedge reduces or mitigates a specific, identifiable risk or aggregate risk position of the entity. The banking entity is required to conduct an analysis supporting its hedging strategy and the effectiveness of the hedges must be monitored and, if necessary, adjusted on an ongoing basis. Banking entities with more than $50 billion in total consolidated assets and liabilities, like Key, that engage in permitted trading transactions are required to implement enhanced compliance programs, to regularly report data on trading activities to the regulators, and to provide a CEO attestation that the entity s compliance program is reasonably designed to comply with the Volcker Rule.

Although the Volcker Rule became effective on April 1, 2014, on December 18, 2014, the Federal Reserve exercised its unilateral authority to extend the compliance deadline until July 21, 2016, with respect to covered funds. The Federal Reserve further indicated its intent to grant an additional one-year extension of the compliance deadline until July 21, 2017, and indicated it would re-evaluate its rules relating to the process by which banking entities would be able to apply for further five-year extensions. Key does not anticipate that the proprietary trading restrictions in the Volcker Rule will have a material impact on its business, but it may be required to divest certain fund investments as discussed in more detail under the heading Other investments in Item 7 of this report.

Enhanced prudential standards and early remediation requirements

Under the Dodd-Frank Act, the Federal Reserve must impose enhanced prudential standards and early remediation requirements upon BHCs, like KeyCorp, with at least $50 billion in total consolidated assets. Prudential standards must include enhanced risk-based capital requirements and leverage limits, liquidity requirements, risk-management and risk committee requirements, resolution plan requirements, credit exposure report requirements, single counterparty credit limits (SCCL), supervisory and company-run stress test requirements and, for certain financial companies, a debt-to-equity limit. Early remediation requirements must include limits on capital distributions, acquisitions, and asset growth in early stages of financial decline and capital restoration plans, capital raising

requirements, limits on transactions with affiliates, management changes, and asset sales in later stages of financial decline, which are to be triggered by forward-looking indicators including regulatory capital and liquidity measures.

The stress test requirements applicable to KeyCorp were implemented by a final rule adopted by the Federal Reserve in 2012. The resolution plan requirements applicable to KeyCorp were implemented by a joint final rule adopted by the Federal Reserve and FDIC in 2011.

In March 2014, the Federal Reserve published a final rule to implement certain of these required enhanced prudential standards. The enhanced prudential standards implemented by this final rule were: (i) the incorporation of the Regulatory Capital Rules through the Federal Reserve s previously finalized rules on capital planning and stress tests, (ii) liquidity requirements relating to cash flow projections, a contingency funding plan, liquidity risk limits, monitoring liquidity risks (with respect to collateral, legal entities, currencies, business lines, and intraday exposures), liquidity stress testing, and a liquidity buffer, (iii) the risk management framework, the risk committee, and the chief risk officer as well as the corporate governance requirements as they relate to liquidity risk management, including the requirements that apply to the board of directors, the risk committee, senior management, and the independent review function, and (iv) a 15-to-1 debt-to-equity limit for companies that the FSOC determines pose a grave threat to U.S. financial stability. KeyCorp was required to comply with the final rule starting on January 1, 2015.

The SCCL and the early remediation requirements published in January 2012 by the Federal Reserve as a proposed rule, however, were not included as part of the March 2014 final rule. It is unclear when the Federal Reserve will finalize the early remediation requirements. No credit exposure reporting requirements, which must be implemented jointly by the Federal Reserve and FDIC, have yet been proposed. The Federal Reserve has indicated that both the Federal Reserve and FDIC recognize that such reports would be most useful and complete if developed in conjunction with the SCCL.

Bank transactions with affiliates

Federal banking law and regulation imposes qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates, including the bank s parent BHC and certain companies the parent BHC may be deemed to control for these purposes. Transactions covered by these provisions must be on arm s-length terms, and cannot exceed certain amounts that are determined with reference to the bank s regulatory capital. Moreover, if the transaction is a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute, and if the affiliate is unable to pledge sufficient collateral, the BHC may be required to provide it. These provisions materially restrict the ability of KeyBank to fund its affiliates, including KeyCorp, KBCM, certain of the Victory mutual funds with which we continue to have a relationship, and KeyCorp s nonbanking subsidiaries engaged in making merchant banking investments (and certain companies in which these subsidiaries have invested).

Provisions added by the Dodd-Frank Act expanded the scope of: (i) the definition of affiliate to include any investment fund having any bank or BHC-affiliated company as an investment adviser, (ii) credit exposures subject to the prohibition on the acceptance of low-quality assets or securities issued by an affiliate as collateral, the quantitative limits, and the collateralization requirements to now include credit exposures arising out of derivative, repurchase agreement, and securities lending/borrowing transactions, and (iii) transactions subject to quantitative limits to now also include credit collateralized by affiliate-issued debt obligations that are not securities. In addition, these provisions require that a credit extension to an affiliate remain secured in accordance with the collateral requirements at all times that it is outstanding, rather than the previous requirement of only at the inception or upon material modification of the transaction. These provisions also raise significantly the procedural and substantive hurdles required to obtain a regulatory exemption from the affiliate transaction requirements. While these provisions became effective on July 21, 2012, the Federal Reserve has not yet issued a proposed rule to implement them.

ITEM 1A. RISK FACTORS

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Described below are the primary risks and uncertainties that if realized could

have a material and adverse effect on our business, financial condition, results of operations or cash flows, and our access to liquidity. The risks and uncertainties described below are not the only risks we face.

Our ERM program incorporates risk management throughout our organization to identify, understand, and manage the risks presented by our business activities. Our ERM program identifies Key s major risk categories as: credit risk, compliance risk, operational risk, liquidity risk, market risk, reputation risk, strategic risk, and model risk. These risk factors, and other risks we may face, are discussed in more detail in other sections of this report.

I. Credit Risk

Should the fundamentals of the commercial real estate market deteriorate, our financial condition and results of operations could be adversely affected.

The strong recovery in commercial real estate, in particular the multifamily property sector, has contributed to a surge in investment and development activity. As a result, property values are elevated and oversupply is a concern in certain markets. Substantial deterioration in property market fundamentals could have an impact on our portfolio, with a large portion of our clients active in real estate and specifically multifamily real estate. A correction in the real estate markets could impact the ability of borrowers to make debt service payments on loans. A portion of our commercial real estate loans are construction loans. Typically these properties are not fully leased at loan origination; the borrower may require additional leasing through the life of the loan to provide cash flow to support debt service payments. If property market fundamentals deteriorate sharply, the execution of new leases could slow, compromising the borrower s ability to cover the debt service payments.

We are subject to the risk of defaults by our loan counterparties and clients.

Many of our routine transactions expose us to credit risk in the event of default of our counterparty or client. Our credit risk may be exacerbated when the collateral held cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the loan or derivative exposure due us. In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of counterparties and clients, including financial statements, credit reports and other information. We may also rely on representations of those counterparties, clients, or other third parties as to the accuracy and completeness of that information. The inaccuracy of that information or those representations affects our ability to accurately evaluate the default risk of a counterparty or client.

Various factors may cause our allowance for loan and lease losses to increase.

We maintain an ALLL (a reserve established through a provision for loan and lease losses charged to expense) that represents our estimate of losses based on our evaluation of risks within our existing portfolio of loans. The level of the allowance reflects our ongoing evaluation of industry concentrations; specific credit risks; loan and lease loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and incurred losses inherent in the current loan portfolio. The determination of the appropriate level of the ALLL inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may indicate the need for an increase in the ALLL. Bank regulatory agencies periodically review our ALLL and, based on judgments that can differ somewhat from those of our own management, may necessitate an increase in the provision for loan and lease losses or the recognition of further loan charge-offs. In addition, if charge-offs in

future periods exceed the ALLL (i.e., if the loan and lease allowance is inadequate), we will need additional loan and lease loss provisions to increase the ALLL, which would decrease our net income and capital.

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Declining asset prices could adversely affect us.

During the Great Recession, the volatility and disruption that the capital and credit markets experienced reached extreme levels. This severe market disruption led to the failure of several substantial financial institutions, causing the widespread liquidation of assets and constraining the credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, rapidly drove down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on our balance sheet, and reduces our ability to sell assets at prices we deem acceptable. Although the recovery has been in place for some time, a further recession would likely reverse recent positive trends in asset prices.

We have concentrated credit exposure in commercial, financial and agricultural loans, commercial real estate loans, and commercial leases.

As of December 31, 2015, approximately 74% of our loan portfolio consisted of commercial, financial and agricultural loans, commercial real estate loans, including commercial mortgage and construction loans, and commercial leases. These types of loans are typically larger than residential real estate loans and consumer loans, and have a different risk profile that includes, among other risks, a borrower s failure to comply with applicable environmental laws and regulations. The deterioration of a larger loan or a group of these loans could cause a significant increase in nonperforming loans, which would result in net loss of earnings from these loans, an increase in the provision for loan and lease losses, and an increase in loan charge-offs.

II. Compliance Risk

We are subject to extensive and increasing government regulation and supervision.

As a financial services institution, we are subject to extensive federal and state regulation and supervision, which has increased in recent years due to the implementation of the Dodd-Frank Act and other financial reform initiatives. Banking regulations are primarily intended to protect depositors funds, the DIF, consumers, taxpayers, and the banking system as a whole, not our debtholders or shareholders. These regulations increase our costs and affect our lending practices, capital structure, investment practices, dividend policy, ability to repurchase our common shares, and growth, among other things.

We face increased regulation of our industry as a result of current and future initiatives intended to provide financial market stability and enhance the liquidity and solvency of financial institutions. We expect continued intense scrutiny from our bank supervisors in the examination process and aggressive enforcement of regulations at the federal and state levels, particularly due to KeyBank s and KeyCorp s status as covered institutions under the Dodd-Frank Act s heightened prudential standards and regulations. We also face increased regulation from efforts designed to protect consumers from financial abuse. Although many parts of the Dodd-Frank Act are now in effect, other parts continue to be implemented. As a result, some uncertainty remains as to the aggregate impact upon Key of the Dodd-Frank Act.

Changes to existing statutes, regulations or regulatory policies or their interpretation or implementation, and becoming subject to additional heightened regulatory practices, requirements, or expectations, could affect us in substantial and unpredictable ways. These changes may subject us to additional costs and increase our litigation risk should we fail to appropriately comply. Such changes may also limit the types of financial services and products we may offer, affect the investments we make, and change the manner in which we operate.

Additionally, federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and affiliated parties.

These enforcement actions may be initiated for violations of laws and regulations, for practices determined to be unsafe or unsound, or for practices or acts that are determined to be unfair, deceptive, or abusive.

For more information, see Supervision and Regulation in Item 1 of this report.

Changes in accounting policies, standards, and interpretations could materially affect how we report our financial condition and results of operations.

The FASB and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of Key s financial statements. Additionally, those bodies that establish and/or interpret the financial accounting and reporting standards (such as the FASB, SEC, and banking regulators) may change prior interpretations or positions on how these standards should be applied. These changes can be difficult to predict and can materially affect how Key records and reports its financial condition and results of operations. In some cases, Key could be required to retroactively apply a new or revised standard, resulting in changes to previously reported financial results.

III. Operational Risk

We are subject to a variety of operational risks.

In addition to the other risks discussed in this section, we are subject to operational risk, which represents the risk of loss resulting from human error, inadequate or failed internal processes and systems, and external events. Operational risk includes the risk of fraud by employees, clerical and record-keeping errors, nonperformance by vendors, threats to cybersecurity, and computer/telecommunications malfunctions. Operational risk also encompasses compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of our noncompliance with contractual and other obligations. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business, such as certain loan processing functions. For example, breakdowns or failures of our vendors systems or employees could be a source of operational risk to us. Resulting losses from operational risk could take the form of explicit charges, increased operational costs, harm to our reputation, inability to secure insurance, litigation, regulatory intervention or sanctions or foregone business opportunities.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications, information systems (both internal and provided by third parties) and the Internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. These risks may increase in the future as we continue to increase mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

In the event of a failure, interruption or breach of our information systems, we may be unable to avoid impact to our customers. Other U.S. financial service institutions and companies have reported breaches, some severe, in the security of their websites or other systems and several financial institutions, including Key, experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other potential attacks have attempted to obtain unauthorized access to

confidential information or destroy data, often through the introduction of computer viruses or malware, phishing, cyberattacks, and other means. To date, none of these efforts has had a material adverse effect on our business or operations. Such security attacks can originate from a wide variety of sources,

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including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. Our security systems may not be able to protect our information systems from similar attacks due to the rapid evolution and creation of sophisticated cyberattacks. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action, and reputational harm.

We rely on third parties to perform significant operational services for us.

Third parties perform significant operational services on our behalf. These third parties are subject to similar risks as Key relating to cybersecurity, breakdowns or failures of their own systems or employees. One or more of these third parties may experience a cybersecurity event or operational disruption and, if any such event does occur, it may not be adequately addressed, either operationally or financially, by such third party. Certain of these third parties may have limited indemnification obligations or may not have the financial capacity to satisfy their indemnification obligations. Financial or operational difficulties of a third party could also impair our operations if those difficulties interfere with such third party s ability to serve us. Additionally, some of our outsourcing arrangements are located overseas and, therefore, are subject to risks unique to the regions in which they operate. If a critical third party is unable to meet our needs in a timely manner or if the services or products provided by such third party are terminated or otherwise delayed and if we are not able to develop alternative sources for these services and products quickly and cost-effectively, it could have a material adverse effect on our business. Additionally, regulatory guidance adopted by federal banking regulators related to how banks select, engage and manage their third parties affects the circumstances and conditions under which we work with third parties and the cost of managing such relationships.

We are subject to claims and litigation.

From time to time, customers, vendors or other parties may make claims and take legal action against us. We maintain reserves for certain claims when deemed appropriate based upon our assessment that a loss is probable, estimable, and consistent with applicable accounting guidance. At any given time we have a variety of legal actions asserted against us in various stages of litigation. Resolution of a legal action can often take years. Whether any particular claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability and adversely affect how the market perceives us and our products and services as well as impact customer demand for those products and services.

We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number and risk of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry due to legal changes to the consumer protection laws provided for by the Dodd-Frank Act and the creation of the CFPB.

There have also been a number of highly publicized legal claims against financial institutions involving fraud or misconduct by employees, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

Our controls and procedures may fail or be circumvented, and our methods of reducing risk exposure may not be effective.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. We also maintain an ERM program designed to identify, measure, monitor, report and analyze our risks. Any system of controls and any system to reduce risk exposure, however well

designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Additionally, instruments, systems and strategies used to hedge or otherwise manage exposure to various types of market compliance, credit, liquidity, operational and business risks and enterprise-wide risk could be less effective than anticipated. As a result, we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk.

Climate change, severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Natural disasters, including severe weather events of increasing strength and frequency due to climate change, acts of war or terrorism, and other adverse external events could have a significant impact on our ability to conduct business or upon third parties who perform operational services for us or our customers. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause us to incur additional expenses.

IV. Liquidity Risk

Capital and liquidity requirements imposed by the Dodd-Frank Act require banks and BHCs to maintain more and higher quality capital and more and higher quality liquid assets than has historically been the case.

New and evolving capital standards resulting from the Dodd-Frank Act and the Regulatory Capital Rules adopted by our regulators will have a significant impact on banks and BHCs, including Key. For a detailed explanation of the new capital and liquidity rules that became effective for us on a phased-in basis on January 1, 2015, see the section titled Regulatory capital and liquidity under the heading Supervision and Regulation in Item 1 of this report.

The Federal Reserve s new capital standards will require Key to maintain more and higher quality capital and could limit our business activities (including lending) and our ability to expand organically or through acquisitions. They could also result in our taking steps to increase our capital that may be dilutive to shareholders or limit our ability to pay dividends or otherwise return capital to shareholders. Capital securities usually are the most expensive form of funding, and increasing capital levels could adversely impact Key s profitability.

In addition, the new liquidity standards will require us to increase our holdings of higher-quality liquid assets, may require us to change our mix of investment alternatives, and may impact business relationships with certain customers. Additionally, support of the new liquidity standards may be satisfied through the use of term wholesale borrowings, which tend to have a higher cost of funds than that of traditional core deposits.

Further, the Federal Reserve requires bank holding companies to obtain approval before making a capital distribution, such as paying or increasing dividends, implementing common stock repurchase programs, or redeeming or repurchasing capital instruments. The Federal Reserve has detailed the processes that bank holding companies should maintain to ensure they hold adequate capital under severely adverse conditions and have ready access to funding before engaging in any capital activities. These rules could limit Key s ability to make distributions, including paying out dividends or buying back shares. For more information, see the section titled Regulatory capital and liquidity under the heading Supervision and Regulation in Item 1 of this report.

Federal agencies may take actions that disrupt the stability of the U.S. financial system.

Since 2008, the federal government has taken unprecedented steps to provide stability to and confidence in the financial markets. For example, the Federal Reserve maintains a variety of stimulus policy measures designed to

maintain a low interest rate environment. In light of recent moderate improvements in the U.S. economy, federal

agencies may no longer support such initiatives. The discontinuation of such initiatives may have unanticipated or unintended impacts, perhaps severe, on the financial markets. These effects could include a sudden move to higher debt yields, which could have an unfavorable effect on the quantity and cost of borrowed funds. In addition, new initiatives or legislation may not be implemented, or, if implemented, may not be adequate to counter any negative effects of discontinuing programs or, in the event of an economic downturn, to support and stabilize the economy.

We rely on dividends by our subsidiaries for most of our funds.

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash that we may raise from debt and equity issuances, we receive substantially all of our funding from dividends by our subsidiaries. Dividends by our subsidiaries are the principal source of funds for the dividends we pay on our common and preferred stock and interest and principal payments on our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (KeyCorp s largest subsidiary) can pay. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see Supervision and Regulation in Item 1 of this report.

In the event KeyBank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common or preferred stock. Such a situation could result in Key losing access to alternative wholesale funding sources. In addition, our right to participate in a distribution of assets upon a subsidiary s liquidation or reorganization is subject to the prior claims of the subsidiary s creditors.

We are subject to liquidity risk, which could negatively affect our funding levels.

Market conditions or other events could negatively affect our access to or the cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences.

Although we maintain a liquid asset portfolio and have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned as well as unanticipated changes in assets, liabilities, and off-balance sheet commitments under various economic conditions (including reducing our capacity of wholesale funding sources), a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on us. If the cost effectiveness or the availability of supply in these credit markets is reduced for a prolonged period of time, our funding needs may require us to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, borrowing under certain secured borrowing arrangements, using relationships developed with a variety of fixed income investors, and further managing loan growth and investment opportunities. These alternative means of funding may result in an increase to the overall cost of funds and may not be available under stressed conditions, which would cause us to liquidate a portion of our liquid asset portfolio to meet any funding needs.

Our credit ratings affect our liquidity position.

The rating agencies regularly evaluate the securities of KeyCorp and KeyBank, and their ratings of our long-term debt and other securities are based on a number of factors, including our financial strength, ability to generate earnings, and other factors. Some of these factors are not entirely within our control, such as conditions affecting the financial services industry and the economy and changes in rating methodologies as a result of the Dodd-Frank Act. We may not be able to maintain our current credit ratings. Following Key s announced acquisition of First Niagara in October 2015, S&P and Fitch affirmed Key s ratings but changed the outlook to negative. Moody s placed Key s ratings under review for downgrade. The Moody s review could be outstanding beyond the targeted merger completion date. A rating downgrade of the securities of KeyCorp or KeyBank could

adversely affect our access to liquidity and could significantly increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us, reducing our ability to generate income.

V. Market Risk

A reversal of the U.S. economic recovery and a return to volatile or recessionary conditions in the U.S. or abroad could negatively affect our business or our access to capital markets.

A worsening of economic and market conditions, downside shocks, or a return to recessionary economic conditions could result in adverse effects on Key and others in the financial services industry. Additionally, the prolonged low-interest rate environment, despite a generally improving economy, has presented a challenge for Key and affected our business and financial performance. The low-interest rate environment may persist for some time even as the economy continues to improve, and may continue to have a negative impact on our performance.

In particular, we could face some of the following risks, and other unforeseeable risks, in connection with a downturn in the economic and market environment or in the face of downside shocks or a recession, whether in the United States or internationally:

¿ A loss of confidence in the financial services industry and the equity markets by investors, placing pressure on the price of Key s common shares or decreasing the credit or liquidity available to Key;

¿ A decrease in consumer and business confidence levels generally, decreasing credit usage and investment or increasing delinquencies and defaults;

¿ A decrease in household or corporate incomes, reducing demand for Key s products and services;

¿ A decrease in the value of collateral securing loans to Key s borrowers or a decrease in the quality of Key s loan portfolio, increasing loan charge-offs and reducing Key s net income;

¿ A decrease in our ability to liquidate positions at acceptable market prices;

¿ The extended continuation of the current low-interest rate environment, continuing or increasing downward pressure to our net interest income;

¿ A decrease in the accuracy and viability of our quantitative models;

¿ An increase in competition and consolidation in the financial services industry;

¿ Increased concern over and scrutiny of the capital and liquidity levels of financial institutions generally, and those of our transaction counterparties specifically;

¿ A decrease in confidence in the creditworthiness of the United States or other governments whose securities we hold; and

¿ An increase in limitations on or the regulation of financial services companies like Key.

We are subject to interest rate risk, which could adversely affect net interest income.

Our earnings are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, the competitive environment within our markets, consumer preferences for specific loan and deposit products and policies of various governmental and regulatory agencies, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rate controls being applied by the Federal Reserve, could influence the amount of interest we receive on loans

and securities, the amount of interest we pay on deposits and borrowings, our ability to originate loans and obtain deposits, and the fair value of our financial assets and liabilities. If the interest we pay on deposits and other borrowings increases at a faster rate than the interest we receive on loans and other investments, net interest income, and therefore our earnings, would be adversely affected. Conversely, earnings could also be adversely affected if the interest we receive on loans and other investments falls more quickly than the interest we pay on deposits and other borrowings.

Our methods for simulating and analyzing our interest rate exposure are discussed more fully under the heading Risk Management Management of interest risk exposure found in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation.

Our profitability depends upon economic conditions in the geographic regions where we have significant operations and on certain market segments with which we conduct significant business.

We have concentrations of loans and other business activities in geographic regions where our bank branches are located Pacific; Rocky Mountains; Indiana; West Ohio/Michigan; East Ohio; Western New York; Eastern New York; and New England and potential exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery has been experienced unevenly in the various regions where we operate, and continued improvement in the overall U.S. economy may not result in similar improvement, or any improvement at all, in the economy of any particular geographic region. Adverse conditions in a geographic region such as inflation, unemployment, recession, natural disasters, or other factors beyond our control could impact the ability of borrowers in these regions to repay their loans, decrease the value of collateral securing loans made in these regions, or affect the ability of our customers in these regions to continue conducting business with us.

Additionally, a significant portion of our business activities are concentrated within the real estate, healthcare, and utilities market segments. The profitability of some of these market segments depends upon the health of the overall economy, seasonality, the impact of regulation, and other factors that are beyond our control and may be beyond the control of our customers in these market segments.

An economic downturn in one or more geographic regions where we conduct our business, or any significant or prolonged impact on the profitability of one or more of the market segments with which we conduct significant business activity, could adversely affect the demand for our products and services, the ability of our customers to repay loans, the value of the collateral securing loans, and the stability of our deposit funding sources.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. We have exposure to many different industries and counterparties in the financial services industries, and we routinely execute transactions with such counterparties, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by one or more financial services institutions have led to, and may cause, market-wide liquidity problems and losses. Many of our transactions with other financial institutions expose us to credit risk in the event of default of a counterparty or client. In addition, our credit risk may be affected when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivatives exposure due us.

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VI. Reputation Risk

Damage to our reputation could significantly harm our businesses.

Our ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by our reputation. Public perception of the financial services industry has declined as a result of the Great Recession. We face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to our reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, significant or numerous failures, interruptions or breaches of our information systems, and the activities of our clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry may have a significant adverse effect on our reputation. We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, which could adversely affect our businesses.

VII. Strategic Risk

We may not realize the expected benefits of our strategic initiatives.

Our ability to compete depends on a number of factors, including among others our ability to develop and successfully execute our strategic plans and initiatives. Our strategic priorities include growing profitably and maintaining financial strength; effectively managing risk and reward; engaging a high-performing, talented, and diverse workforce; and embracing the changes required by our clients and the marketplace. Acquiring and expanding customer relationships, including by cross-selling additional or new products to them, is also very important to our business model and our ability to grow revenue and earnings. Our inability to execute on or achieve the anticipated outcomes of our strategic priorities may affect how the market perceives us and could impede our growth and profitability.

We operate in a highly competitive industry.

We face substantial competition in all areas of our operations from a variety of competitors, some of which are larger and may have more financial resources than us. Our competitors primarily include national and super-regional banks as well as smaller community banks within the various geographic regions in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers and other local, regional, national, and global financial services firms. In addition, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks. Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key s core banking products and services. We expect the competitive landscape of the financial services industry to become even more intensified as a result of legislative, regulatory, structural, and technological changes.

Our ability to compete successfully depends on a number of factors, including: our ability to develop and execute strategic plans and initiatives; our ability to develop, maintain, and build long-term customer relationships based on quality service and competitive prices; our ability to develop competitive products and technologies demanded by our customers, while maintaining our high ethical standards and assets safe and sound; our ability to attract, retain, and

develop a strong employee workforce; and industry and general economic trends. Increased

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competition in the financial services industry, and our failure to perform in any of these areas, could significantly weaken our competitive position, which could adversely affect our growth and profitability.

Maintaining or increasing our market share depends upon our ability to adapt our products and services to evolving industry standards and consumer preferences, while maintaining competitive prices.

The continuous, widespread adoption of new technologies, including internet services and mobile devices (including smartphones and tablets), requires us to evaluate our product and service offerings to ensure they remain competitive. Our success depends, in part, on our ability to adapt our products and services, as well as our distribution of them, to evolving industry standards and consumer preferences. New technologies have altered consumer behavior by allowing consumers to complete transactions such as paying bills or transferring funds directly without the assistance of banks. New products allow consumers to maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and related income generated from those deposits.

The increasing pressure from our competitors, both bank and nonbank, to keep pace and adopt new technologies and products and services requires us to incur substantial expense. We may be unsuccessful in developing or introducing new products and services, modifying our existing products and services, adapting to changing consumer preferences and spending and saving habits, achieving market acceptance or regulatory approval, sufficiently developing or maintaining a loyal customer base or offering products and services at prices lower than the prices offered by our competitors. These risks may affect our ability to achieve growth in our market share and could reduce both our revenue streams from certain products and services and our revenues from our net interest income.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract, retain, motivate, and develop key people. Competition for the best people in most of our business activities is ongoing and can be intense, and we may not be able to retain or hire the people we want or need to serve our customers. To attract and retain qualified employees, we must compensate these employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense.

Various restrictions on compensation of certain executive officers were imposed under the Dodd-Frank Act and other legislation and regulations. In addition, our incentive compensation structure is subject to review by the Federal Reserve, who may identify deficiencies in the structure, causing us to make changes that may affect our ability to offer competitive compensation to these individuals. Our ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

Potential acquisitions or strategic partnerships may disrupt our business and dilute shareholder value.

On October 30, 2015, we entered into an Agreement and Plan of Merger with First Niagara, pursuant to which First Niagara will merge with and into KeyCorp with KeyCorp continuing as the surviving company. Acquiring other banks, bank branches, or other businesses involves various risks commonly associated with acquisitions or partnerships, including exposure to unknown or contingent liabilities of the target company; diversion of our management s time and attention; significant integration risk with respect to employees, accounting systems, and technology platforms; our inability to realize anticipated revenue and cost benefits and synergies; increased regulatory scrutiny; and, the possible loss of key employees and customers of the target company. We regularly evaluate merger and acquisition and strategic partnership opportunities and conduct due diligence activities related to possible

transactions. As a result, mergers or acquisitions involving cash, debt or equity securities, such as the First Niagara merger, may occur at any time. Acquisitions may involve the payment of a premium over book and market values. Therefore, some dilution of our tangible book value and net income per common share

could occur in connection with any future transaction. Additionally, if an acquisition, including the First Niagara merger, or strategic partnership were to occur, we may fail to realize the expected revenue increases, cost savings, increases in geographic or product presence, or other projected benefits.

We may not be able to complete the acquisition of First Niagara.

Before the transactions contemplated in the merger agreement with First Niagara can be completed, various approvals must be obtained from the bank regulatory and other governmental authorities. In deciding whether to grant antitrust or regulatory clearances, the relevant governmental entities will consider a variety of factors, including the regulatory standing of each of the parties and the effect of the merger on competition within their relevant jurisdiction. An adverse development in either party s regulatory standing or other factors could result in an inability to obtain one or more of the required regulatory approvals or delay their receipt. The terms and conditions of the approvals that are granted may impose requirements, limitations or costs, or place restrictions on the conduct of the combined company s business or require branch divestitures. The level of divestitures required by the relevant governmental entities might be unacceptable to the parties, or could delay the closing of the merger or diminish the anticipated benefits of the merger. If required by regulatory authorities, we will divest branches in certain areas in a manner sufficient to eliminate such regulatory authorities competitive concerns. Despite the parties commitments to use their reasonable best efforts to comply with conditions imposed by regulatory entities, under the terms of the merger agreement, KeyCorp and First Niagara will not be required to take actions that would be more-likely-than-not to have a material and adverse effect on KeyCorp and its subsidiaries, taken as a whole, giving effect to the merger (measured on a scale relative to First Niagara and its subsidiaries, taken as a whole). There can be no assurance that regulators will not impose conditions, terms, obligations, or restrictions and that such conditions, terms, obligations, or restrictions will not have the effect of delaying the completion of the merger, imposing additional material costs on or materially limiting the revenues of the combined company following the merger or otherwise reduce the anticipated benefits of the merger if the merger were consummated successfully within the expected timeframe. In addition, we cannot provide assurance that any such conditions, terms, obligations, or restrictions will not result in the delay or abandonment of the merger. Additionally, the completion of the merger is conditioned on the absence of certain orders, injunctions, or decrees by any court or regulatory agency of competent jurisdiction that would prohibit or make illegal the completion of the merger.

In addition to the various regulatory approvals, the merger agreement is subject to a number of other conditions that must be fulfilled in order to complete the merger. Those conditions include, but are not limited to: approval of the merger agreement by First Niagara and KeyCorp shareholders, as well as approval of the amendment to KeyCorp s articles by KeyCorp s shareholders, absence of orders prohibiting completion of the merger, effectiveness of the registration statement filed in connection with the transaction, and approval of the KeyCorp common shares and the new KeyCorp preferred stock to be issued to First Niagara common and preferred stockholders, as applicable, for listing on the NYSE. The conditions to the closing of the merger may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the merger agreement at any time, before or after shareholder approval, or KeyCorp or First Niagara may elect to terminate the merger agreement in certain other circumstances.

Several putative class action lawsuits have been filed by purported First Niagara stockholders alleging claims against First Niagara, the members of First Niagara s Board of Directors, and KeyCorp. Among other remedies, the purported plaintiffs seek to enjoin the merger. The outcome of any such litigation is uncertain. If the cases or any additional cases filed in connection with the merger are not resolved, these lawsuits could prevent or delay the completion of the merger and result in significant costs to First Niagara and/or KeyCorp, including any costs associated with the indemnification of directors and officers.

We may fail to realize the anticipated benefits of the merger with First Niagara.

KeyCorp and First Niagara have operated and, until the completion of the merger, will continue to operate, independently. The success of the merger, including anticipated benefits and cost savings, will depend on, among

other things, our ability to combine the businesses of KeyCorp and First Niagara in a manner that permits growth opportunities, including, among other things, enhanced revenues and revenue synergies, an expanded market reach and operating efficiencies, and that does not materially disrupt the existing customer relationships of KeyCorp or First Niagara nor result in decreased revenues due to loss of customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management s time and energy and could have an adverse effect on the surviving corporation s business, financial condition, operating results, and prospects. In addition, it is possible that the integration process could result in the disruption of our ongoing businesses or cause inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

We will incur transaction and integration costs in connection with the First Niagara merger.

We have incurred and expect to incur significant, nonrecurring costs in connection with consummating the First Niagara merger. In addition, we will incur integration costs following the completion of the merger as we integrate our business and First Niagara s business, including facilities and systems consolidation costs and employment-related costs. There can be no assurances that the expected benefits and efficiencies related to the integration of the businesses will be realized to offset these transaction and integration costs over time. We may also incur additional costs to maintain employee morale and to retain key employees. We will also incur significant legal, financial advisor, accounting, banking and consulting fees, fees relating to regulatory filings and notices, SEC filing fees, printing and mailing fees, and other costs associated with the merger. Some of these costs are payable regardless of whether the merger is completed.

VIII. Model Risk

We rely on quantitative models to manage certain accounting, risk management and capital planning functions.

We use quantitative models to help manage certain aspects of our business and to assist with certain business decisions, including estimating probable loan losses, measuring the fair value of financial instruments when reliable market prices are unavailable, estimating the effects of changing interest rates and other market measures on our financial condition and results of operations, managing risk, and for capital planning purposes (including during the CCAR capital planning process). Our modeling methodologies rely on many assumptions, historical analyses and correlations. These assumptions may be incorrect, particularly in times of market distress, and the historical correlations on which we rely may no longer be relevant. Additionally, as businesses and markets evolve, our measurements may not accurately reflect this evolution. Even if the underlying assumptions and historical correlations used in our models are adequate, our models may be deficient due to errors in computer code, bad data, misuse of data, or the use of a model for a purpose outside the scope of the model s design.

As a result, our models may not capture or fully express the risks we face, may suggest that we have sufficient capitalization when we do not, or may lead us to misjudge the business and economic environment in which we will operate. If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management, capital planning, or other business or financial decisions. Furthermore, strategies that we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable, and as a result, we may realize losses or other lapses.

Banking regulators continue to focus on the models used by banks and bank holding companies in their businesses. The failure or inadequacy of a model may result in increased regulatory scrutiny on us or may result in an enforcement action or proceeding against us by one of our regulators.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The headquarters of KeyCorp and KeyBank are located in Key Tower at 127 Public Square, Cleveland, Ohio 44114-1306. At December 31, 2015, Key leased approximately 477,781 square feet of the complex, encompassing the first 12 floors and the 54th through 56th floors of the 57-story Key Tower. In addition, Key owned two buildings in Brooklyn, Ohio, with office space that it operated from and leased out totaling approximately 563,466 square feet at December 31, 2015. As of the same date, KeyBank owned 434 branches and leased 532 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

Branches and ATMs by Region

	Pacific	Rocky Mountains	Indiana	West Ohio/ Michigan	East Ohio	Western New York	Eastern New York	New England	Total
Branches	246	126	61	98	148	80	144	63	966
ATMs	290	158	68	121	251	110	180	78	1,256

ITEM 3. LEGAL PROCEEDINGS

The information presented in the Legal Proceedings section of Note 20 (Commitments, Contingent Liabilities and Guarantees) of the Notes to Consolidated Financial Statements is incorporated herein by reference.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we have not accrued legal reserves, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established reserves are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The dividend restrictions discussion in the Supervision and Regulation section in Item 1. Business of this report, and the disclosures included in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements contained in Item 8 of this report, are incorporated herein by reference:

	Page(s)
Discussion of our common shares, shareholder information and repurchase activities in the section captioned Capital Common shares outstanding	71
Presentation of annual and quarterly market price and cash dividends per common share and discussion of dividends in the section captioned Capital Dividends	36, 71, 100
Discussion of dividend restrictions in the sections captioned Supervision and Regulation Regulatory capital and liquidity Dividend restrictions and Liquidity risk management Liquidity for KeyCorp, Note 3 (Restrictions on Cash, Dividends and Lending Activities), and Note 22 (Shareholders Equity)	14, 88, 136, 216
KeyCorp common share price performance (2011-2015) graph	72

From time to time, KeyCorp or its principal subsidiary, KeyBank, may seek to retire, repurchase, or exchange outstanding debt of KeyCorp or KeyBank, and capital securities or preferred stock of KeyCorp, through cash purchase, privately negotiated transactions, or otherwise. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, and other factors. The amounts involved may be material.

As authorized by our Board and pursuant to our 2015 capital plan submitted to and not objected to by the Federal Reserve, we have authority to repurchase up to $725 million of our common shares in the open market or through privately negotiated transactions. Share repurchases under the 2015 capital plan began in the second quarter of 2015 and included repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under our 2015 capital plan were suspended in the fourth quarter of 2015 due to the pending merger with First Niagara.

The following table summarizes our repurchases of our common shares for the three months ended December 31, 2015. Common shares deemed surrendered by employees in connection with our stock compensation and benefit plans comprise the entire amount of share repurchases as disclosed in the table.

onth	Total number of shares repurchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares th yet be purchased as publicly announced p pr
31	2,720	$ 13.10		38,(
30	69	13.32		36,(
31	6,484	12.99		35,8

9,273	$	13.02

(a) Includes common shares deemed surrendered by employees in connection with our stock compensation and benefit plans to satisfy tax obligations. There were no common shares repurchased in the open market during the fourth quarter of 2015.

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares as follows: on October 31, 2015, at $12.42; on November 30, 2015, at $13.11; and on December 31, 2015, at $13.19.

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ITEM 6. SELECTED FINANCIAL DATA

The information included under the caption Selected Financial Data in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 36 is incorporated herein by reference.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Throughout the Notes to Consolidated Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations (the MD&A), we use certain acronyms and abbreviations. These terms are defined in Note 1 (Summary of Significant Accounting Policies), which begins on page 119.

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Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for each of the past three years. Some tables include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections that we refer to are presented in the table of contents.

Terminology

Throughout this discussion, references to Key, we, our, us, and similar terms refer to the consolidated entity consist of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers solely to KeyCorp s subsidiary bank, KeyBank National Association. KeyBank (consolidated) refers to the consolidated entity consisting of KeyBank and its subsidiaries.

We want to explain some industry-specific terms at the outset so you can better understand the discussion that follows.

¿ We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business, Victory, and Austin. The education lending business and Austin have been accounted for as ***discontinued operations*** since 2009. Victory was classified as a ***discontinued operation*** in our first quarter 2013 financial reporting as a result of the sale of this business as announced on February 21, 2013, and closed on July 31, 2013.

¿ Our ***exit loan portfolios*** are separate from our ***discontinued operations.*** These portfolios, which are in a run-off mode, stem from product lines we decided to cease because they no longer fit with our corporate strategy. These exit loan portfolios are included in ***Other Segments.***

¿ We engage in ***capital markets activities*** primarily through business conducted by our Key Corporate Bank segment. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients financing needs and to mitigate certain risks), and conduct transactions in foreign currencies (both to accommodate clients needs and to benefit from fluctuations in exchange rates).

¿ For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading Regulatory capital and liquidity Capital planning and stress testing in the section entitled Supervision and Regulation in Item 1 of this report, the regulators are required to conduct a supervisory capital assessment of all BHCs with assets of at least $50 billion, including KeyCorp. As part of this capital adequacy review, banking regulators evaluated a component of Tier 1 capital, known as ***Tier 1 common equity***, using the definitions of Tier 1 capital and total risk-weighted assets that were in effect in 2014, as well as a transition plan for full implementation of the ***Regulatory Capital Rules***. The section entitled Capital Capital adequacy in this MD&A provides more information on total capital, Tier 1 capital, Tier 1 common equity, and

the Regulatory Capital Rules, including ***Common Equity Tier 1***, and describes how the three measures are calculated.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 (Summary of Significant Accounting Policies).

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Figure 1. Selected Financial Data

dollars in millions, except per share amounts	2015	2014	2013	2012	2011	Compound Annual Rate of Change (2011-2015)
YEAR ENDED DECEMBER 31,						
Interest income	**$ 2,622**	$ 2,554	$ 2,620	$ 2,705	$ 2,889	(1.9)%
Interest expense	**274**	261	295	441	622	(15.1)
Net interest income	**2,348**	2,293	2,325	2,264	2,267	.7
Provision for credit losses	**166**	57	138	213	(88)	N/M
Noninterest income	**1,880**	1,797	1,766	1,856	1,688	2.2
Noninterest expense	**2,840**	2,761	2,812	2,834	2,712	.9
Income (loss) from continuing operations before income taxes	**1,222**	1,272	1,141	1,073	1,331	(1.7)
Income (loss) from continuing operations attributable to Key	**915**	939	870	835	955	(.9)
Income (loss) from discontinued operations, net of taxes [(a)]	**1**	(39)	40	23	(35)	N/M
Net income (loss) attributable to Key	**916**	900	910	858	920	(.1)
Income (loss) from continuing operations attributable to Key common shareholders	**892**	917	847	813	848	1.0
Income (loss) from discontinued operations, net of taxes [(a)]	**1**	(39)	40	23	(35)	N/M
Net income (loss) attributable to Key common shareholders	**893**	878	887	836	813	1.9
PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	**$ 1.06**	$ 1.05	$ .93	$ .87	$ .91	3.1%
Income (loss) from discontinued operations, net of taxes [(a)]		(.04)	.04	.02	(.04)	N/M
Net income (loss) attributable to Key common shareholders [(b)]	**1.06**	1.01	.98	.89	.87	4.0
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ 1.05**	$ 1.04	$ .93	$ .86	$ .91	2.9%
Income (loss) from discontinued operations, net of taxes assuming dilution [(a)]		(.04)	.04	.02	(.04)	N/M
	1.05	.99	.97	.89	.87	3.8

Net income (loss) attributable to Key common shareholders assuming dilution [b]						
Cash dividends paid	**.29**	.25	.215	.18	.10	23.7%
Book value at year end	**12.51**	11.91	11.25	10.78	10.09	4.4
Tangible book value at year end	**11.22**	10.65	10.11	9.67	9.11	4.3
Market price at year end	**13.19**	13.90	13.42	8.42	7.69	11.4
Dividend payout ratio	**27.4%**	24.8%	21.9%	20.2%	11.49%	N/A
Weighted-average common shares outstanding (000)	**836,846**	871,464	906,524	938,941	931,934	(2.1)
Weighted-average common shares and potential common shares outstanding (000) [c]	**844,489**	878,199	912,571	943,259	935,801	(2.0)
AT DECEMBER 31.						
Loans	**$ 59,876**	$ 57,381	$ 54,457	$ 52,822	$ 49,575	3.8%
Earning assets	**83,780**	82,269	79,467	75,055	73,729	2.6
Total assets	**95,133**	93,821	92,934	89,236	88,785	1.4
Deposits	**71,046**	71,998	69,262	65,993	61,956	2.8
Long-term debt	**10,186**	7,875	7,650	6,847	9,520	1.4
Key common shareholders equity	**10,456**	10,239	10,012	9,980	9,614	1.7
Key shareholders equity	**10,746**	10,530	10,303	10,271	9,905	1.6
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS						
Return on average total assets	**.99%**	1.08%	1.03%	1.03%	1.16%	N/A
Return on average common equity	**8.63**	9.01	8.48	8.25	9.17	N/A
Return on average tangible common equity [d]	**9.64**	10.04	9.45	9.16	10.20	N/A
Net interest margin (TE)	**2.88**	2.97	3.12	3.21	3.16	N/A
Cash efficiency ratio [d]	**65.9**	66.2	67.3	67.8	68.0	N/A
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS						
Return on average total assets	**.97%**	.99%	1.02%	.99%	1.04%	N/A
Return on average common equity	**8.64**	8.63	8.88	8.48	8.79	N/A
Return on average tangible common equity [d]	**9.65**	9.61	9.90	9.42	9.78	N/A
Net interest margin (TE)	**2.85**	2.94	3.02	3.13	3.09	N/A
Loan to deposit [e]	**87.8**	84.6	83.8	85.8	87.0	N/A
CAPITAL RATIOS AT DECEMBER 31,						
Key shareholders equity to assets	**11.30%**	11.22%	11.09%	11.51%	11.16%	N/A
Key common shareholders equity to assets	**10.99**	10.91	10.78	11.18	10.83	N/A
Tangible common equity to tangible assets [d]	**9.98**	9.88	9.80	10.15	9.88	N/A
Common Equity Tier 1 [d]	**10.94**	N/A	N/A	N/A	N/A	N/A
Tier 1 common equity [d]	**N/A**	11.17	11.22	11.36	11.26	N/A
Tier 1 risk-based capital	**11.35**	11.90	11.96	12.15	12.99	N/A
Total risk-based capital	**12.97**	13.89	14.33	15.13	16.51	N/A
Leverage	**10.72**	11.26	11.11	11.41	11.79	N/A

TRUST AND BROKERAGE ASSETS						
Assets under management	**$ 33,983**	$ 39,157	$ 36,905	$ 34,744	$ 34,255	N/A
Nonmanaged and brokerage assets	**47,681**	49,147	47,418	35,550	30,639	N/A
OTHER DATA						
Average full-time-equivalent employees	**13,483**	13,853	14,783	15,589	15,381	(2.6)%
Branches	**966**	994	1,028	1,088	1,058	(1.8)

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

(c) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

(d) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, Common Equity Tier 1 (compliance date of January 1, 2015, under the Regulatory Capital Rules), Tier 1 common equity (prior to January 1, 2015), and cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

(e) Represents period-end consolidated total loans and loans held for sale (excluding education loans in securitizations trusts for periods prior to 2014) divided by period-end consolidated total deposits (excluding deposits in foreign office).

Economic overview

The economy continued its modest recovery in 2015, with overall GDP of 2.4% unchanged from the prior year. 2015 was a volatile year, with the first quarter starting at a slow pace, then growth picking up over the next six months before decelerating again in the fourth quarter. Throughout 2015, slowing emerging market growth, a strengthening U.S. dollar, and falling demand for U.S. exports were all significant factors that held back growth. Additionally, oil prices dropped 32% over the year, giving consumers a boost in discretionary income but resulting in a sharp decline in energy-related investments. The stock market disappointed in 2015, with the S&P 500 equity index dropping 1%, compared to an 11% increase in 2014, largely due to uncertainty around Chinese equity markets and oil and commodity prices. Globally, the economic recovery slowed; the European Central Bank maintained an easy money policy as their recovery stalled and the risk of deflation rose, while emerging markets struggled in the face of low commodity prices and a weakening Chinese economy.

For 2015, 2.7 million new jobs were added in the U.S. The unemployment rate fell further, from 5.6% at December 31, 2014, to 5.0% at December 31, 2015. While weak labor force participation was a factor, solid employment gains also drove the decline. Slack remains, however, reflected in underwhelming wage growth for much of the year. Consumers preferred to solidify their balance sheets in 2015, as the savings rate rose to 5.5% in December 2015 while consumer spending, although still solid, declined to 2.6%. By December 2015, headline inflation remained at .7%, mainly due to a further decline in energy prices. Core inflation also remained low throughout the year, ending 2015 at 2.1%, up from 1.6% at the end of 2014.

As the economy expanded further and the labor market continued to strengthen, the housing market gained traction, with slight improvement across nearly all metrics in 2015. While household formation is normalizing, a declining home ownership rate continues to weigh on sales growth. Existing home sales finished 2015 at a seasonally adjusted annual rate of 5.46 million, up 7.7% from December 2014. New home sales ended the year on a solid note, reaching a seasonally adjusted annual rate of 544,000 in December 2015, up 9.9% from 2014. Price appreciation picked up modestly, with the median price for existing homes up 6.3% year-over-year in December 2015, compared to 4.6% in 2014. Housing starts accelerated further, up 6.4% from December 2014, driven by gains in both single and multi-family construction of 6.1% and 7.0%, respectively.

The Federal Reserve remained active and accommodative for most of 2015. The Federal Open Market Committee (FOMC) decided to maintain the existing policy of reinvesting principal payments to help accommodate financial conditions throughout the year. In addition, the FOMC kept the federal funds target rate near zero until December 2015, lifting the target rate by 25 basis points, citing an improving labor market and the expectation that inflation would return to its 2% objective over the medium term. The 10-year U.S. Treasury yield began the year at 2.2%, and dipped to as low as 1.7% for the first quarter of 2015, driven by disappointing weather-related economic data. In the third quarter of 2015, with rising speculation around higher interest rates, the 10-year U.S. Treasury yield began to increase, reaching 2.4%, and ended the year at 2.3%, as interest rates eased (even after the FOMC raised rates) due to

concerns of slower global growth, lower energy prices, and equity market volatility.

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Long-term financial goals

Our long-term financial goals are as follows:

¿ Improve balance sheet efficiency by targeting a loan-to-deposit ratio range of 90% to 100%;

¿ Maintain a moderate risk profile by targeting a net loan charge-offs to average loans ratio and provision for credit losses to average loans ratio in the range of .40% to .60%;

¿ Grow high quality and diverse revenue streams by targeting a net interest margin in the range of 3.00% to 3.25% and a ratio of noninterest income to total revenue of greater than 40%;

¿ Generate positive operating leverage and target a cash efficiency ratio of less than 60%; and

¿ Maintain disciplined capital management and target a return on average assets in the range of 1.00% to 1.25%.
Figure 2 shows the evaluation of our long-term financial goals for the three months and year ended December 31, 2015.

Figure 2. Evaluation of Our Long-Term Financial Goals

			Year ended	
KEY Business Model	**Key Metrics [(a)]**	**4Q15**	**December 31, 2015**	**Targets**
Balance sheet efficiency	Loan-to-deposit ratio [(b)]	88 %	88 %	90 - 100 %
Moderate risk profile	Net loan charge-offs to average loans	.25 %	.24 %	.40 - .60 %
	Provision for credit losses to average loans	.30 %	.28 %	
High quality, diverse revenue streams	Net interest margin	2.87 %	2.88 %	3.00 - 3.25 %
	Noninterest income to total revenue	44 %	44 %	> 40 %
Positive operating leverage	Cash efficiency ratio [(c)]	66.4 %	65.9 %	< 60 %
Financial Returns	Return on average assets	.97 %	.99 %	1.00 - 1.25 %

(a) Calculated from continuing operations, unless otherwise noted.

(b) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits (excluding deposits in foreign office).

(c) Excludes intangible asset amortization; non-GAAP measure: see Figure 4 for reconciliation.

Corporate strategy

We remain committed to enhancing long-term shareholder value by continuing to execute our relationship business model, growing our franchise, and being disciplined in our management of capital. Our 2015-2016 strategic focus is to grow by building enduring relationships through client-focused solutions and service. We intend to pursue this strategy by growing profitably; acquiring and expanding targeted client relationships; effectively managing risk and rewards; maintaining financial strength; and engaging, retaining, and inspiring our diverse and high-performing workforce. These strategic priorities for enhancing long-term shareholder value are described in more detail below.

¿ ***Grow profitably*** We will continue to focus on generating positive operating leverage by growing revenue and creating a more efficient operating environment. We expect our relationship business model to keep generating organic growth as it helps us expand engagement with existing clients and attract new customers. We will leverage our continuous improvement culture to create a more efficient cost structure that is aligned, sustainable, and consistent with the current operating environment and supports our relationship business model.

¿ ***Acquire and expand targeted client relationships*** We have taken purposeful steps to enhance our ability to acquire and expand targeted relationships. Our local delivery of a broad product set and industry expertise allows us to match client needs and market conditions to deliver the best solutions.

¿ ***Effectively manage risk and rewards*** Our risk management activities are focused on ensuring we properly identify, measure, and manage risks across the entire company to maintain safety and soundness and maximize profitability.

¿ ***Maintain financial strength*** With the foundation of a strong balance sheet, we will remain focused on sustaining strong reserves, liquidity and capital. We will work closely with our Board and regulators to manage capital to support our clients needs and drive long-term shareholder value. Our capital remains a competitive advantage for us.

¿ ***Engage a high-performing, talented, and diverse workforce*** Every day our employees provide our clients with great ideas, extraordinary service, and smart solutions. We will continue to engage our high-performing, talented, and diverse workforce to create an environment where they can make a difference, own their careers, be respected, and feel a sense of pride.

Strategic developments

We initiated the following actions during 2015 to support our corporate strategy:

¿ We continue to focus on growing our businesses and remain committed to improving productivity and efficiency. During 2015, we generated positive operating leverage, with pre-provision net revenue up 4.7% from 2014. Net interest income benefited from solid loan growth, driven by a 12% increase in average commercial, financial and agricultural loans. Noninterest income benefited from increases in several of our core fee-based businesses: investment banking and debt placement fees, which had record high fees in 2015 due to stronger financial advisory fees and loan syndications, trust and investment services income, corporate services income, and cards and payments income. Although noninterest expense increased from prior year, this increase was primarily due to the ongoing investments we have made in our businesses to drive revenue growth, including the addition of client-facing personnel across our franchise.

¿ Our strong risk management practices and a more favorable credit environment resulted in another year of solid credit quality trends. For 2015, net loan charge-offs were .24% of average loans and the provision for credit losses was .28% of average loans, both well below our targeted range.

¿ We also made progress on other strategic initiatives. On October 30, 2015, we announced that KeyCorp entered into a definitive agreement and plan of merger to acquire all of the outstanding capital stock of First Niagara. The merger is currently expected to be completed during the third quarter of 2016 and is subject to customary closing conditions including the approval of regulators and the shareholders of both KeyCorp and First Niagara. This merger is expected to accelerate our transformation into a high-performing regional bank, generate attractive financial returns, provide significant revenue opportunities, and create a complementary business mix and a more

balanced franchise.

¿ Capital management remained a priority in 2015. On March 11, 2015, the Federal Reserve announced that it did not object to our 2015 capital plan submitted as part of the annual CCAR process. The 2015 capital plan included a common share repurchase program of up to $725 million, including repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2015 capital plan began in the second quarter of 2015. During the second and third quarters of 2015, we completed $252 million of common share repurchases under this authorization. In addition, we completed $208 million of common share repurchases in the first quarter of 2015 under our 2014 capital plan for a total of $460 million of open market common share repurchases during 2015. We suspended our existing share repurchase program in the fourth quarter of 2015 due to the pending merger with First Niagara. We plan to include share repurchases in the upcoming 2016 CCAR submission.

- The Board declared a quarterly dividend of $.065 per common share for the first quarter of 2015. Our 2015 capital plan proposed a 15% increase in our quarterly common share dividend to $.075 per share, which was approved by our Board in May 2015. Consistent with our 2015 capital plan, we made a dividend payment of $.075 per common share for each of the second, third, and fourth quarters of 2015, which brought our annual dividend to $.29 per common share for 2015. The Board will consider an additional potential increase in our quarterly common share dividend, up to $.085 per share, in 2016 for the fifth quarter of the 2015 capital plan.

Highlights of Our 2015 Performance

Financial performance

For 2015, we announced net income from continuing operations attributable to Key common shareholders of $892 million, or $1.05 per common share. These results compare to net income from continuing operations attributable to Key common shareholders of $917 million, or $1.04 per common share, for 2014.

Figure 3 shows our continuing and discontinued operating results for the past three years.

Figure 3. Results of Operations

Year ended December 31, *in millions, except per share amounts*	**2015**	**2014**	**2013**
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	**$ 915**	$ 939	$ 870
Income (loss) from discontinued operations, net of taxes [a]	**1**	(39)	40
Net income (loss) attributable to Key	**$ 916**	$ 900	$ 910
Income (loss) from continuing operations attributable to Key	**$ 915**	$ 939	$ 870
Less: Dividends on Series A Preferred Stock	**23**	22	23
Income (loss) from continuing operations attributable to Key common shareholders	**892**	917	847
Income (loss) from discontinued operations, net of taxes [a]	**1**	(39)	40
Net income (loss) attributable to Key common shareholders	**$ 893**	$ 878	$ 887
PER COMMON SHARE ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	**$ 1.05**	$ 1.04	$ .93
Income (loss) from discontinued operations, net of taxes [a]		(.04)	.04
Net income (loss) attributable to Key common shareholders [b]	**$ 1.05**	$ .99	$ .97

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

Our 2016 expectations, as disclosed below, do not include the effect of the pending First Niagara merger, which is expected to be completed in the third quarter of 2016.

Our 2015 full-year results reflect success in executing our strategy by generating positive operating leverage and maintaining strong risk management and disciplined capital management.

Our taxable-equivalent net interest income for 2015 was $2.376 billion, and the net interest margin was 2.88%. These results compare to taxable-equivalent net interest income of $2.317 billion and a net interest margin of 2.97% for the prior year. The increase in net interest income reflects higher earning asset balances, partially offset by lower earning asset yields, which also drove the decline in the net interest margin. In 2016, we expect low-single-digit (less than 5%) growth in net interest income without the benefit of higher interest rates or mid-single-digit (4% to 6%) growth with the benefit of higher interest rates compared to the prior year.

Our noninterest income was $1.9 billion, up $83 million, or 4.6%, from 2014. Investment banking and debt placement fees benefited from our business model and had a record high year, increasing $48 million from 2014. Trust and investment services income increased $30 million, primarily due to the full-year 2015 impact of the September 2014 acquisition of Pacific Crest Securities. Noninterest income for 2015 also included increases of $20 million in corporate services income due to higher loan commitment fees and $17 million in cards and payments income due to higher merchant services, purchase card, and ATM debit card fees driven by increased volume. Other income also increased $10 million. These increases were partially offset by declines of $27 million in net gains from principal investing and $23 million in operating lease income and other leasing gains. In 2016, we expect mid-single-digit (4% to 6%) growth in noninterest income compared to 2015.

Our noninterest expense was $2.8 billion, an increase of $79 million, or 2.9%, from 2014. We recognized $61 million of merger-, efficiency-, and pension-related charges in 2015 compared to $80 million of efficiency- and pension-related charges in 2014. Personnel expense increased $61 million, driven by higher incentive and stock-based compensation, employee benefits, and salaries, partially offset by lower technology contract labor and severance. Nonpersonnel expense increased $18 million, primarily due to increases in marketing of $8 million and computer processing of $6 million. In 2016, we expect noninterest expense to be relatively stable (plus or minus 2%) with 2015.

Average loans totaled $58.6 billion for 2015, compared to $55.7 billion in 2014. Commercial, financial and agricultural loan growth of $3.3 billion was broad-based across our commercial lines of business. Consumer loans were slightly down, as modest increases across our core consumer loan portfolio, primarily direct term loans and credit cards, were offset by run-off in our designated consumer exit portfolio. For 2016, we anticipate average loan growth in the mid-single-digit (4% to 6%) range.

Average deposits, excluding deposits in foreign office, totaled $70.1 billion for 2015, an increase of $2.9 billion compared to 2014. NOW and money market deposit accounts and demand deposits increased $2 billion and $1.9 billion, respectively, reflecting growth in the commercial mortgage servicing business and inflows from commercial and consumer clients. These increases were partially offset by run-off in certificates of deposit and other time deposits. Our consolidated loan to deposit ratio was 87.8% at December 31, 2015, compared to 84.6% at December 31, 2014.

We maintained credit discipline in 2015, and our asset quality ratios remained strong. The provision for credit losses was $166 million for 2015 compared to $57 million for 2014. The increase in our provision is due to the growth in our loan portfolio over the past twelve months as well as lower recoveries in 2015 compared to 2014. Net loan charge-offs were $142 million, or .24%, of average loan balances for 2015, compared to $113 million, or .20%, for 2014. Our nonperforming loans declined to $387 million, or .65%, of period-end loans at December 31, 2015, compared to $418 million, or .73%, at December 31, 2014. Our ALLL was $796 million, or 1.33% of period-end loans, compared to $794 million, or 1.38%, at December 31, 2014, and represented 206% and 190% coverage of nonperforming loans at December 31, 2015, and December 31, 2014, respectively. In 2016, we expect net loan charge-offs to average loans to remain below our long-term targeted range of 40 to 60 basis points and the ALLL, as a percentage of period-end loans, to remain relatively stable (plus or minus 2%, which would approximate a three basis point change) with 2015.

Our capital ratios remain strong. Our tangible common equity and Tier 1 risk-based capital ratios were 9.98% and 11.35%, respectively, at December 31, 2015, compared to 9.88% and 11.90%, respectively, at December 31, 2014. In addition, our Common Equity Tier 1 was 10.94% at December 31, 2015. We have identified four primary uses of capital:

1. Investing in our businesses, supporting our clients, and loan growth;

2. Maintaining or increasing our common share dividend;

3. Returning capital in the form of common share repurchases to our shareholders; and

4. Remaining disciplined and opportunistic about how we invest in our franchise to include selective acquisitions over time.

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Our capital management remains focused on creating value. During 2015, our full-year dividend per common share increased 16% from the prior year, and we repurchased $460 million of common shares.

Figure 4 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity, Common Equity Tier 1, Tier 1 common equity, pre-provision net revenue, cash efficiency ratio, Common Equity Tier 1 under the Regulatory Capital Rules (estimates).

The tangible common equity ratio and the return on tangible common equity ratio have been a focus for some investors, and management believes these ratios may assist investors in analyzing Key s capital position without regard to the effects of intangible assets and preferred stock. Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve focuses its assessment of capital adequacy on a component of Tier 1 capital known as Common Equity Tier 1. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Common Equity Tier 1 is consistent with existing capital adequacy categories. The Regulatory Capital Rules, described in more detail under the section Supervision and Regulation in Item 1 of this report, also make Common Equity Tier 1 a priority. The Regulatory Capital Rules change the regulatory capital standards that apply to BHCs by, among other changes, phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. Starting in 2016, our trust preferred securities will only be included in Tier 2 capital. Since analysts and banking regulators may assess our capital adequacy using tangible common equity and Common Equity Tier 1, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 4 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Figure 4 also shows the computation for and reconciliation of pre-provision net revenue, which is not formally defined by GAAP. We believe that eliminating the effects of the provision for credit losses makes it easier to analyze our results by presenting them on a more comparable basis.

The cash efficiency ratio is a ratio of two non-GAAP performance measures. Accordingly, there is no directly comparable GAAP performance measure. The cash efficiency ratio excludes the impact of our intangible asset amortization from the calculation. We believe this ratio provides greater consistency and comparability between our results and those of our peer banks. Additionally, this ratio is used by analysts and investors as they develop earnings forecasts and peer bank analysis.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

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Figure 4. GAAP to Non-GAAP Reconciliations

Year ended December 31,

dollars in millions		**2015**		2014		2013		2012		2011	
Tangible common equity to tangible assets at period end											
Key shareholders equity (GAAP)		**$ 10,746**		$ 10,530		$ 10,303		$ 10,271		$ 9,905	
Less:	Intangible assets [a]	**1,080**		1,090		1,014		1,027		934	
	Series B Preferred Stock										
	Series A Preferred Stock [b]	**281**		282		282		291		291	
	Tangible common equity (non-GAAP)	**$ 9,385**		$ 9,158		$ 9,007		$ 8,953		$ 8,680	
Total assets (GAAP)		**$ 95,133**		$ 93,821		$ 92,934		$ 89,236		$ 88,785	
Less:	Intangible assets [a]	**1,080**		1,090		1,014		1,027		934	
	Tangible assets (non-GAAP)	**$ 94,053**		$ 92,731		$ 91,920		$ 88,209		$ 87,851	
Tangible common equity to tangible assets ratio (non-GAAP)		**9.98**	%	9.88	%	9.80	%	10.15	%	9.88	%
Common Equity Tier 1 at period end											
Key shareholders equity (GAAP)		**$ 10,746**									
Less:	Series A Preferred Stock [b]	**281**									
	Common Equity Tier 1 capital before adjustments and deductions	**10,465**									
Less:	Goodwill, net of deferred taxes	**1,034**									
	Intangible assets, net of deferred	**26**									

	taxes							
	Deferred tax assets	**1**						
	Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	**(58)**						
	Accumulated gains (losses) on cash flow hedges, net of deferred taxes	**(20)**						
	Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	**(365)**						
	Total Common Equity Tier 1 capital	**$ 9,847**						
Net risk-weighted assets (regulatory)		**$ 89,980**						
Common Equity Tier 1 ratio (non-GAAP)		**10.94**	**%**					
Tier 1 common equity at period end								
Key shareholders equity (GAAP)				$ 10,530	$ 10,303	$ 10,271	$ 9,905	
Qualifying capital securities				339	339	339	1,046	
Less:	Goodwill			1,057	979	979	917	
	Accumulated other comprehensive income (loss) [c]			(395)	(394)	(172)	(72)	
	Other assets [d]			83	89	114	72	
	Total Tier 1 capital (regulatory)			10,124	9,968	9,689	10,034	
Less:	Qualifying capital securities			339	339	339	1,046	
	Series A Preferred Stock [b]			282	282	291	291	
	Total Tier 1 common equity (non-GAAP)			$ 9,503	$ 9,347	$ 9,059	$ 8,697	

Net risk-weighted assets (regulatory)				$ 85,100		$ 83,328		$ 79,734		$ 77,214
Tier 1 common equity ratio (non-GAAP)				11.17 %		11.22 %		11.36 %		11.26 %
Pre-provision net revenue										
Net interest income (GAAP)		**$**	**2,348**	$ 2,293		$ 2,325		$ 2,264		$ 2,267
Plus:	Taxable-equivalent adjustment		**28**	24		23		24		25
	Noninterest income (GAAP)		**1,880**	1,797		1,766		1,856		1,688
Less:	Noninterest expense (GAAP)		**2,840**	2,761		2,812		2,834		2,712
Pre-provision net revenue from continuing operations (non-GAAP)		**$**	**1,416**	$ 1,353		$ 1,302		$ 1,310		$ 1,268
Average tangible common equity										
Average Key shareholders equity (GAAP)		**$**	**10,626**	$ 10,467		$ 10,276		$ 10,144		$ 10,133
Less:	Intangible assets (average) [e]		**1,085**	1,039		1,021		978		935
	Series B Preferred Stock (average)									590
	Series A Preferred Stock (average)		**290**	291		291		291		291
	Average tangible common equity (non-GAAP)	**$**	**9,251**	$ 9,137		$ 8,964		$ 8,875		$ 8,317
Return on average tangible common equity from continuing operations										
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)		**$**	**892**	$ 917		$ 847		$ 813		$ 848
Average tangible common equity (non-GAAP)			**9,251**	9,137		8,964		8,875		8,317
Return on average tangible common equity from continuing			**9.64 %**	10.04 %		9.45 %		9.16 %		10.20 %

operations (non-GAAP)														
Return on average tangible common equity consolidated														
Net income (loss) attributable to Key common shareholders (GAAP)	**$**	**893**		$	878		$	887		$	836		$	813
Average tangible common equity (non-GAAP)		**9,251**			9,137			8,964			8,875			8,317
Return on average tangible common equity consolidated (non-GAAP)		**9.65**	**%**		9.61	%		9.90	%		9.42	%		9.78 %
Cash efficiency ratio														
Noninterest expense (GAAP)	**$**	**2,840**		$	2,761		$	2,812		$	2,834		$	2,712
Less: Intangible asset amortization (GAAP)		**36**			39			44			23			4
Adjusted noninterest expense (non-GAAP)	**$**	**2,804**		$	2,722		$	2,768		$	2,811		$	2,708
Net interest income (GAAP)	**$**	**2,348**		$	2,293		$	2,325		$	2,264		$	2,267
Plus: Taxable-equivalent adjustment		**28**			24			23			24			25
Noninterest income (GAAP)		**1,880**			1,797			1,766			1,856			1,688
Total taxable-equivalent revenue (non-GAAP)	**$**	**4,256**		$	4,114		$	4,114		$	4,144		$	3,980
Cash efficiency ratio (non-GAAP)		**65.9**	**%**		66.2	%		67.3	%		67.8	%		68.0 %

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(a) For the years ended December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, intangible assets exclude $45 million, $68 million, $92 million, and $123 million, respectively, of period-end purchased credit card receivables.

(b) Net of capital surplus for the years ended December 31, 2015, December 31, 2014, and December 31, 2013.

(c) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

(d) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014, December 31, 2013, December 31, 2012, and December 31, 2011.

(e) For the years ended December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, average intangible assets exclude $55 million, $79 million, $107 million, and $55 million, respectively, of average purchased credit card receivables.

Figure 4. GAAP to Non-GAAP Reconciliations, continued

Year ended December 31,			
dollars in millions		**2015**	
Common Equity Tier 1 under the Regulatory Capital Rules (estimates)			
Common Equity Tier 1 under current Regulatory Capital Rules	**$**	**9,847**	
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:			
Deferred tax assets and other intangible assets [f]		**(40)**	
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules [g]	**$**	**9,807**	
Net risk-weighted assets under current Regulatory Capital Rules	**$**	**89,980**	
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:			
Mortgage servicing assets [h]		**482**	
All other assets [i]		**3**	
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules [g]	**$**	**90,465**	
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules [g]		**10.84**	%

(f) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as intangible assets (other than goodwill and mortgage servicing assets) subject to the transition provisions of the final rule.

(g) The anticipated amount of regulatory capital and risk-weighted assets is based upon the federal banking agencies Regulatory Capital Rules (as fully phased-in on January 1, 2019); we are subject to the Regulatory Capital Rules under the standardized approach.

(h) Item is included in the 10%/15% exceptions bucket calculation and is risk-weighted at 250%.

(i) Includes the phase-in of deferred tax assets arising from temporary differences at 250% risk-weight. Additionally, under the fully implemented rule, certain deferred tax assets and intangible assets subject to the transition provision are no longer required to be risk-weighted because they are deducted directly from capital.

Results of Operations

Net interest income

One of our principal sources of revenue is net interest income. Net interest income is the difference between interest income received on earning assets (such as loans and securities) and loan-related fee income, and interest expense paid on deposits and borrowings. There are several factors that affect net interest income, including:

¿ the volume, pricing, mix, and maturity of earning assets and interest-bearing liabilities;

¿ the volume and value of net free funds, such as noninterest-bearing deposits and equity capital;

¿ the use of derivative instruments to manage interest rate risk;

¿ interest rate fluctuations and competitive conditions within the marketplace; and

¿ asset quality.

To make it easier to compare results among several periods and the yields on various types of earning assets (some taxable, some not), we present net interest income in this discussion on a taxable-equivalent basis (i.e.,

as if it were all taxable and at the same rate). For example, $100 of tax-exempt income would be presented as $154, an amount that if taxed at the statutory federal income tax rate of 35% would yield $100.

Figure 5 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five years. This figure also presents a reconciliation of taxable-equivalent net interest income to net interest income reported in accordance with GAAP for each of those years. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income for 2015 was $2.376 billion, and the net interest margin was 2.88%. These results compare to taxable-equivalent net interest income of $2.317 billion and a net interest margin of 2.97% for the prior year. The $59 million increase in net interest income reflects higher earning asset balances, partially offset by lower earning asset yields, which also drove the decline in the net interest margin.

Taxable-equivalent net interest income for 2014 decreased $31 million compared to 2013, and the net interest margin declined 15 basis points. The decreases in net interest income and the net interest margin were attributable to lower earning asset yields. Loan growth, the maturity of higher-rate certificates of deposit, and a more favorable mix of lower-cost deposits and wholesale borrowings partially offset the impact of lower earning asset yields.

Average earning assets totaled $82.5 billion for 2015, compared to $78.1 billion in 2014. Contributing to the 2015 increase in average earning assets was average loan growth of $2.9 billion driven by commercial, financial and agricultural loans, which increased $3.3 billion and was broad-based across our commercial lines of business. In addition, our average securities available for sale portfolio increased $1.5 billion compared to 2014 due to higher levels of liquidity, driven by deposit growth and long-term debt issuances, which benefited KeyBank s LCR and credit ratings profile.

Average deposits, excluding deposits in foreign office, totaled $70.1 billion for 2015, an increase of $2.9 billion compared to 2014. NOW and money market deposit accounts increased $2 billion, and demand deposits increased $1.9 billion, reflecting growth in the commercial mortgage servicing business and inflows from commercial and consumer clients. These increases were partially offset by run-off in certificates of deposit and other time deposits.

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Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations

Year ended December 31,	2015					2014				
dollars in millions	Average Balance		Interest (a)	Yield/ Rate (a)		Average Balance		Interest (a)	Yield/ Rate (a)	
ASSETS										
Loans: (b), (c)										
Commercial, financial and agricultural	$ **29,658**	(d)	$ **953**	**3.21**	%	$ 26,375	(d)	$ 866	3.28	%
Real estate commercial mortgage	**8,020**		**295**	**3.68**		7,999		303	3.79	
Real estate construction	**1,143**		**43**	**3.73**		1,061		43	4.07	
Commercial lease financing	**3,976**		**143**	**3.60**		4,239		156	3.67	
Total commercial loans	**42,797**		**1,434**	**3.35**		39,674		1,368	3.45	
Real estate residential mortgage	**2,244**		**95**	**4.21**		2,201		96	4.37	
Home equity:										
Key Community Bank	**10,266**		**399**	**3.89**		10,340		405	3.91	
Other	**237**		**19**	**7.85**		299		23	7.80	
Total home equity loans	**10,503**		**418**	**3.98**		10,639		428	4.02	
Consumer other Key Community Bank	**1,580**		**103**	**6.54**		1,501		104	6.92	
Credit cards	**752**		**81**	**10.76**		712		78	10.95	
Consumer other:										
Marine	**675**		**43**	**6.36**		894		56	6.22	
Other	**43**		**3**	**7.56**		58		4	7.70	
Total consumer other	**718**		**46**	**6.43**		952		60	6.31	
Total consumer loans	**15,797**		**743**	**4.70**		16,005		766	4.79	
Total loans	**58,594**		**2,177**	**3.71**		55,679		2,134	3.83	
Loans held for sale	**959**		**37**	**3.85**		570		21	3.76	
Securities available for sale (b), (e)	**13,720**		**293**	**2.14**		12,210		277	2.27	
Held-to-maturity securities (b)	**4,936**		**96**	**1.95**		4,949		93	1.88	
Trading account assets	**761**		**21**	**2.80**		932		25	2.70	
Short-term investments	**2,843**		**8**	**.27**		2,886		6	.21	
Other investments (e)	**706**		**18**	**2.63**		865		22	2.53	

Total earning assets	**82,519**	**2,650**	**3.21**		78,091	2,578	3.30	
Allowance for loan and lease losses	**(791)**				(818)			
Accrued income and other assets	**10,300**				9,806			
Discontinued assets	**2,132**				3,828			
Total assets	**$ 94,160**				$ 90,907			
LIABILITIES								
NOW and money market deposit accounts	**$ 36,258**	**56**	**.15**		$ 34,283	48	.14	
Savings deposits	**2,372**		**.02**		2,446	1	.02	
Certificates of deposit ($100,000 or more) [(f)]	**2,041**	**26**	**1.28**		2,616	35	1.35	
Other time deposits	**3,115**	**22**	**.71**		3,495	32	.91	
Deposits in foreign office	**489**	**1**	**.23**		615	1	.23	
Total interest-bearing deposits	**44,275**	**105**	**.24**		43,455	117	.27	
Federal funds purchased and securities sold under repurchase agreements	**632**		**.04**		1,182	2	.16	
Bank notes and other short-term borrowings	**572**	**9**	**1.52**		597	9	1.49	
Long-term debt [(f), (g)]	**7,334**	**160**	**2.24**		5,161	133	2.68	
Total interest-bearing liabilities	**52,813**	**274**	**.52**		50,395	261	.52	
Noninterest-bearing deposits	**26,355**				24,410			
Accrued expense and other liabilities	**2,222**				1,791			
Discontinued liabilities [(g)]	**2,132**				3,828			
Total liabilities	**83,522**				80,424			
EQUITY								
Key shareholders equity	**10,626**				10,467			
Noncontrolling interests	**12**				16			
Total equity	**10,638**				10,483			
Total liabilities and equity	**$ 94,160**				$ 90,907			
Interest rate spread (TE)			**2.69**	**%**			2.78	%
Net interest income (TE) and net interest margin (TE)		**2,376**	**2.88**	**%**		2,317	2.97	%
TE adjustment [(b)]		**28**				24		

Net interest income, GAAP basis	**$ 2,348**	$ 2,293

(a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g) below, calculated using a matched funds transfer pricing methodology.

(b) Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

(c) For purposes of these computations, nonaccrual loans are included in average loan balances.

(d) Commercial, financial and agricultural average balances include $88 million, $93 million, $95 million, and $36 million of assets from commercial credit cards for the years ended December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

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Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations (Continued)

2013			2012				2011			Compo R Change
terest (a)	Yield/ Rate (a)		Average Balance	Interest (a)	Yield/ Rate (a)		Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance
855	3.60	%	$ 21,141 (d)	$ 810	3.83	%	$ 17,507	$ 705	4.03 %	11.1
312	4.11		7,656	339	4.43		8,437	380	4.50	(1.0)
45	4.25		1,171	56	4.74		1,677	73	4.36	(7.4)
172	3.67		5,142	187	3.64		5,846	293	5.01	(7.4)
1,384	3.73		35,110	1,392	3.96		33,467	1,451	4.34	5.0
98	4.49		2,049	100	4.86		1,850	97	5.25	3.9
397	3.93		9,520	384	4.03		9,390	387	4.12	1.8
29	7.70		473	37	7.81		598	46	7.66	(16.9)
426	4.07		9,993	421	4.21		9,988	433	4.34	1.0
103	7.33		1,269	121	9.53		1,167	113	9.62	6.2
83	11.86		288	40	13.99					N/M
74	6.26		1,551	97	6.26		1,992	125	6.28	(19.5)
6	8.32		102	8	8.14		142	11	7.87	(21.3)
80	6.38		1,653	105	6.38		2,134	136	6.38	(19.6)
790	4.94		15,252	787	5.16		15,139	779	5.14	.9
2,174	4.10		50,362	2,179	4.33		48,606	2,230	4.59	3.8
20	3.72		579	20	3.45		387	14	3.58	19.9
311	2.49		13,422	399	3.08		18,766	584	3.20	(6.1)
82	1.87		3,511	69	1.97		514	12	2.35	57.2
21	2.78		718	18	2.48		878	26	2.97	(2.8)
6	.20		2,116	6	.27		2,543	6	.25	2.3
29	2.84		1,141	38	3.27		1,264	42	3.14	(11.0)
2,643	3.51		71,849	2,729	3.82		72,958	2,914	4.02	2.5
			(919)				(1,250)			(8.7)
			9,912				10,341			(.1)
			5,573				6,247			(19.3)
			$ 86,415				$ 88,296			1.3

53	.16	$ 29,673	56	.19	$ 27,001	71	.26	6.1
1	.04	2,218	1	.05	1,958	1	.06	3.9
50	1.76	3,574	94	2.64	4,931	149	3.02	(16.2)
53	1.30	5,386	104	1.92	7,185	166	2.31	(15.4)
1	.23	767	2	.23	807	3	.30	(9.5)
158	.37	41,618	257	.62	41,882	390	.93	1.1
2	.13	1,814	4	.19	1,981	5	.27	(20.4)
8	1.89	413	7	1.69	619	11	1.84	(1.6)
127	3.28	4,673	173	4.10	7,293	216	3.18	.1
295	.60	48,518	441	.92	51,775	622	1.21	.4
		20,217			17,381			8.7
		1,958			2,658			(3.5)
		5,555			6,232			(19.3)
		76,248			78,046			1.4
		10,144			10,133			1.0
		23			117			(36.6)
		10,167			10,250			.7
		$ 86,415			$ 88,296			1.3
	2.91 %			2.90 %			2.81 %	
2,348	3.12 %		2,288	3.21 %		2,292	3.16 %	
23			24			25		
2,325			$ 2,264			$ 2,267		

(e) Yield is calculated on the basis of amortized cost.

(f) Rate calculation excludes basis adjustments related to fair value hedges.

(g) A portion of long-term debt and the related interest expense is allocated to discontinued liabilities as a result of applying our matched funds transfer pricing methodology to discontinued operations.

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Figure 6 shows how the changes in yields or rates and average balances from the prior year affected net interest income. The section entitled Financial Condition contains additional discussion about changes in earning assets and funding sources.

Figure 6. Components of Net Interest Income Changes from Continuing Operations

	2015 vs. 2014			2014 vs. 2013		
in millions	**Average Volume**	**Yield/ Rate**	**Net Change** (a)	**Average Volume**	**Yield/ Rate**	**Net Change** (a)
INTEREST INCOME						
Loans	**$ 110**	**$ (67)**	**$ 43**	$ 105	$ (145)	$ (40)
Loans held for sale	**15**	**1**	**16**	1		1
Securities available for sale	**33**	**(17)**	**16**	(11)	(23)	(34)
Held-to-maturity securities		**3**	**3**	11		11
Trading account assets	**(5)**	**1**	**(4)**	5	(1)	4
Short-term investments		**2**	**2**			
Other investments	**(4)**		**(4)**	(4)	(3)	(7)
Total interest income (TE)	**149**	**(77)**	**72**	107	(172)	(65)
INTEREST EXPENSE						
NOW and money market deposit accounts	**3**	**5**	**8**	2	(7)	(5)
Savings deposits		**(1)**	**(1)**			
Certificates of deposit ($100,000 or more)	**(7)**	**(2)**	**(9)**	(4)	(11)	(15)
Other time deposits	**(3)**	**(7)**	**(10)**	(7)	(14)	(21)
Deposits in foreign office						
Total interest-bearing deposits	**(7)**	**(5)**	**(12)**	(9)	(32)	(41)
Federal funds purchased and securities sold under repurchase agreements	**(1)**	**(1)**	**(2)**	(1)	1	
Bank notes and other short-term borrowings				3	(2)	1
Long-term debt	**50**	**(23)**	**27**	27	(21)	6
Total interest expense	**42**	**(29)**	**13**	20	(54)	(34)
Net interest income (TE)	**$ 107**	**$ (48)**	**$ 59**	$ 87	$ (118)	$ (31)

(a) The change in interest not due solely to volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

Noninterest income

As shown in Figure 7, noninterest income for 2015 was $1.88 billion, up $83 million, or 4.6%, from 2014. Investment banking and debt placement fees benefited from our business model and had a record year, increasing $48 million

from 2014. Trust and investment services income increased $30 million, primarily due to the full year 2015 impact of the September 2014 acquisition of Pacific Crest Securities. Noninterest income for 2015 also included increases of $20 million in corporate services income due to higher non-yield loan fees and dealer trading and derivatives income and $17 million in cards and payments income due to higher merchant services, purchase card, and ATM debit card fees driven by increased volume. Other income also increased $10 million. These increases were partially offset by declines of $27 million in net gains from principal investing and $23 million in operating lease income and other leasing gains.

In 2014, noninterest income increased $31 million, or 1.8%, compared to 2013. Investment banking and debt placement fees increased $64 million from 2013. Net gains from principal investing were $26 million higher than prior year, and trust and investment services income increased $10 million, primarily due to the September 2014 acquisition of Pacific Crest Securities. These increases were partially offset by declines of $21 million in operating lease income and other leasing gains, $20 million in service charges on deposit accounts, $12 million in mortgage servicing fees, and $9 million in consumer mortgage income. Other income also decreased $15 million.

Figure 7. Noninterest Income

Year ended December 31, *dollars in millions*	2015	2014	2013	Change 2015 vs. 2014 Amount	Percent
Trust and investment services income	**$ 433**	$ 403	$ 393	$ 30	7.4 %
Investment banking and debt placement fees	**445**	397	333	48	12.1
Service charges on deposit accounts	**256**	261	281	(5)	(1.9)
Operating lease income and other leasing gains	**73**	96	117	(23)	(24.0)
Corporate services income	**198**	178	172	20	11.2
Cards and payments income	**183**	166	162	17	10.2
Corporate-owned life insurance income	**127**	118	120	9	7.6
Consumer mortgage income	**12**	10	19	2	20.0
Mortgage servicing fees	**48**	46	58	2	4.3
Net gains (losses) from principal investing	**51**	78	52	(27)	(34.6)
Other income [(a)]	**54**	44	59	10	22.7
Total noninterest income	**$ 1,880**	$ 1,797	$ 1,766	$ 83	4.6 %

(a) Included in this line item is our Dealer trading and derivatives income (loss). Additional detail is provided in Figure 8.

Figure 8. Dealer Trading and Derivatives Income (Loss)

Year ended December 31, *dollars in millions*	2015	2014	2013	Change 2015 vs. 2014 Amount	Percent
Dealer trading and derivatives income (loss), proprietary [(a), (b)]	**$ (9)**	$ (18)	$ (14)	$ 9	N/M
Dealer trading and derivatives income (loss), nonproprietary [(b)]	**20**	7	27	13	185.7 %
Total dealer trading and derivatives income (loss)	**$ 11**	$ (11)	$ 13	$ 22	N/M

(a) For the year ended December 31, 2015, income of $5 million related to foreign exchange, interest rates, and commodity derivative trading was offset by losses related to fixed income, equity securities trading, and credit portfolio management activities. For the year ended December 31, 2014, income of $4 million related to foreign exchange, interest rate, and commodity derivative trading was offset by losses related to equity securities trading, fixed income, and credit portfolio management activities. For the year ended December 31, 2013, income of $3 million related to foreign exchange and interest rate derivative trading was offset by losses related to fixed income,

equity securities trading, commodity derivative trading, and credit portfolio management activities.

(b) The allocation between proprietary and nonproprietary is made based upon whether the trade is conducted for the benefit of Key or Key s clients rather than based upon rulemaking under the Volcker Rule. Prohibitions and restrictions on proprietary trading activities imposed by the Volcker Rule became effective April 1, 2014. For more information, see the discussion under the heading Other Regulatory Developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation in Item 1 of this report.

The following discussion explains the composition of certain elements of our noninterest income and the factors that caused those elements to change.

Trust and investment services income

Trust and investment services income is one of our largest sources of noninterest income and consists of brokerage commissions, trust and asset management commissions, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 9. For 2015, trust and investment services income increased $30 million, or 7.4%, from the prior year primarily due to the full year 2015 impact of the September 2014 acquisition of Pacific Crest Securities. For 2014, trust and investment services income increased $10 million, or 2.5%, from the prior year.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2015, our bank, trust, and registered investment advisory subsidiaries had assets under management of $34.0 billion, compared to $39.2 billion at December 31, 2014, and $36.9 billion at December 31, 2013. As shown in Figure 9, the decrease from 2014 to 2015 was primarily attributable to client attrition in the securities lending portfolio and market declines across all the portfolios. Increases from 2013 to 2014 across all the portfolios were attributable to market appreciation.

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Figure 9. Assets Under Management

Year ended December 31,				**Change 2015 vs. 2014**	
dollars in millions	**2015**	**2014**	**2013**	**Amount**	**Percent**
Assets under management by investment type:					
Equity	**$ 20,199**	$ 21,393	$ 20,971	$ (1,194)	(5.6) %
Securities lending	**1,215**	4,835	3,422	(3,620)	(74.9)
Fixed income	**9,705**	10,023	9,767	(318)	(3.2)
Money market	**2,864**	2,906	2,745	(42)	(1.4)
Total	**$ 33,983**	$ 39,157	$ 36,905	$ (5,174)	(13.2) %

Investment banking and debt placement fees

Investment banking and debt placement fees consist of syndication fees, debt and equity financing fees, financial advisor fees, gains on sales of commercial mortgages, and agency origination fees. For 2015, investment banking and debt placement fees increased $48 million, or 12.1%, from the prior year. For 2014, investment banking and debt placement fees increased $64 million, or 19.2%, from the prior year. These increases were primarily driven by strength in syndication and financial advisory fees as well as the impact of the September 2014 acquisition of Pacific Crest Securities.

Service charges on deposit accounts

Service charges on deposit accounts declined $5 million, or 1.9%, in 2015 compared to the prior year and $20 million, or 7.1%, in 2014 compared to 2013 primarily due to lower overdraft charges resulting from changes in posting order.

Operating lease income and other leasing gains

Operating lease income and other leasing gains decreased $23 million, or 24%, during 2015 compared to the prior year, and $21 million, or 17.9%, in 2014 compared to 2013 due to lower gains on the early terminations of leveraged leases. Figure 10 shows the corresponding operating lease expense related to the rental of leased equipment.

Corporate services income

Corporate services income increased $20 million, or 11.2%, in 2015 compared to 2014 driven by higher non-yield loan fees and dealer trading and derivatives income. Corporate services income increased $6 million, or 3.5%, in 2014 compared to 2013 driven by higher non-yield loan fees.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased $17 million, or 10.2 %, in 2015 compared to 2014 and $4 million, or 2.5%, in 2014 compared to 2013. The increases were due to higher merchant services, purchase card, and ATM debit card fees driven by increased volume.

Consumer mortgage income

Consumer mortgage income increased $2 million, or 20%, in 2015 compared to 2014. This increase was primarily driven by gains on the sales of consumer mortgage loans. Consumer mortgage income decreased $9 million, or 47.4%, in 2014 compared to 2013, primarily due to lower mortgage originations caused by increasing mortgage interest rates.

Mortgage servicing fees

Mortgage servicing fees increased $2 million, or 4.3%, in 2015 compared to 2014 due to lower mortgage servicing fee amortization expense. Mortgage servicing fees decreased $12 million, or 20.7%, in 2014 compared to 2013 due to lower special servicing fees.

Other income

Other income, which consists primarily of gains on sales of loans held for sale, other service charges, and certain dealer trading income, increased $10 million, or 22.7%, in 2015 compared to 2014, and decreased $15 million, or 25.4%, in 2014 compared to 2013 due to changes in various miscellaneous income categories.

Noninterest expense

As shown in Figure 10, noninterest expense for 2015 was $2.84 billion, an increase of $79 million, or 2.9%, from 2014. We recognized $61 million of merger-, efficiency-, and pension-related charges in 2015 compared to $80 million of efficiency- and pension-related charges in 2014. As shown in Figure 11, personnel expense increased $61 million, driven by higher incentive and stock-based compensation, employee benefits, and salaries, partially offset by lower technology contract labor and severance. Nonpersonnel expense increased $18 million, primarily due to increases in marketing of $8 million and computer processing of $6 million.

Noninterest expense for 2014 was $2.761 billion, a decrease of $51 million, or 1.8%, from 2013. We recognized $80 million of efficiency- and pension-related charges in 2014 compared to $117 million in 2013. We also recognized $22 million of noninterest expense in 2014 related to Pacific Crest Securities, which we acquired during the third quarter of 2014. As shown in Figure 11, personnel expense decreased by $18 million in 2014 due to declines in technology contract labor, severance, and employee benefits, partially offset by an increase in incentive and stock-based compensation. Nonpersonnel expense decreased $33 million, primarily due to declines in net occupancy costs and equipment expense.

Figure 10. Noninterest Expense

Year ended December 31,				**Change 2015 vs. 2014**	
dollars in millions	**2015**	**2014**	**2013**	**Amount**	**Percent**
Personnel	**$ 1,652**	$ 1,591	$ 1,609	$ 61	3.8 %
Net occupancy	**255**	261	275	(6)	(2.3)
Computer processing	**164**	158	156	6	3.8
Business services and professional fees	**159**	156	151	3	1.9
Equipment	**88**	96	104	(8)	(8.3)
Operating lease expense	**47**	42	47	5	11.9
Marketing	**57**	49	51	8	16.3
FDIC assessment	**32**	30	30	2	6.7
Intangible asset amortization	**36**	39	44	(3)	(7.7)
OREO expense, net	**6**	5	7	1	20.0
Other expense	**344**	334	338	10	3.0
Total noninterest expense	**$ 2,840**	$ 2,761	$ 2,812	$ 79	2.9 %

Average full-time equivalent employees [a]	**13,483**	13,853	14,783	(370)	(2.7) %

(a) The number of average full-time-equivalent employees was not adjusted for discontinued operations.
The following discussion explains the composition of certain elements of our noninterest expense and the factors that caused those elements to change.

Personnel

As shown in Figure 11, personnel expense, the largest category of our noninterest expense, increased by $61 million, or 3.8%, in 2015 compared to 2014. Increases in incentive and stock-based compensation of $30 million,

employee benefits of $26 million, and salaries of $21 million all contributed to the increase in personnel expense. These increases were partially offset by declines in technology contract labor of $10 million and severance of $6 million.

Personnel expense decreased by $18 million, or 1.1%, from 2013 to 2014. Declines in technology contract labor of $16 million, severance of $14 million, and employee benefits of $15 million all contributed to the decrease. These declines were partially offset by an increase in incentive and stock-based compensation of $27 million related to the performance of our business and the September 2014 acquisition of Pacific Crest Securities.

Figure 11. Personnel Expense

Year ended December 31,				**Change 2015 vs. 2014**	
dollars in millions	**2015**	**2014**	**2013**	**Amount**	**Percent**
Salaries	**$ 912**	$ 891	$ 891	$ 21	2.4 %
Technology contract labor, net	**46**	56	72	(10)	(17.9)
Incentive and stock-based compensation [(a)]	**410**	380	353	30	7.9
Employee benefits	**266**	240	255	26	10.8
Severance	**18**	24	38	(6)	(25.0)
Total personnel expense	**$ 1,652**	$ 1,591	$ 1,609	$ 61	3.8 %

(a) Excludes directors stock-based compensation of $1 million in 2015, $2 million in 2014, and $3 million in 2013, reported as other expense in Figure 10.

Net occupancy

Net occupancy expense decreased $6 million, or 2.3%, in 2015 compared to 2014, and $14 million, or 5.1%, in 2014 compared to 2013. These declines were primarily due to lower charges related to vacating leased property and a decrease in rental expenses.

Operating lease expense

Operating lease expense increased $5 million, or 11.9%, in 2015 compared to 2014 due to increased depreciation expense on operating lease equipment related to new business. Operating lease expense decreased $5 million, or 10.6%, in 2014 compared to 2013 primarily due to product run-off. Income related to the rental of leased equipment is presented in Figure 7 as operating lease income and other leasing gains.

Other expense

Other expense comprises various miscellaneous expense items such as travel and entertainment, costs associated with technology service providers, and franchise and business taxes. Other expense increased $10 million, or 3.0%, in 2015 compared to 2014, and declined $4 million, or 1.2%, in 2014 compared to 2013 due to fluctuations in several of those line items.

Income taxes

We recorded a tax provision from continuing operations of $303 million for 2015, compared to a tax provision of $326 million for 2014, and $271 million for 2013. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 24.8% for 2015, compared to 25.6% for 2014, and 23.7% for 2013.

Our federal tax (benefit) expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance, earn credits associated with investments in low-income housing projects, and make periodic

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adjustments to our tax reserves. In 2015, our effective tax rate was reduced by additional federal tax credit refunds filed for prior years. In addition, in 2014 and 2013, our effective tax rate was lower due to the early termination of certain leveraged leases that resulted in nontaxable gains pursuant to a prior settlement with the IRS.

We recorded a valuation allowance of $.4 million at December 31, 2015, compared to $.3 million at December 31, 2014, and $1 million at December 31, 2013, against the gross deferred tax assets for certain state net operating loss and state credit carryforwards.

Line of Business Results

This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 23 (Line of Business Results) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments and certain lines of business, and explains Other Segments and Reconciling Items.

Figure 12 summarizes the contribution made by each major business segment to our taxable-equivalent revenue from continuing operations and income (loss) from continuing operations attributable to Key for each of the past three years.

Figure 12. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31,				**Change 2015 vs. 2014**	
dollars in millions	**2015**	**2014**	**2013**	**Amount**	**Percent**
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	**$ 2,275**	$ 2,215	$ 2,315	$ 60	2.7%
Key Corporate Bank	**1,811**	1,646	1,557	165	10.0
Other Segments	**177**	257	243	(80)	(31.1)
Total Segments	**4,263**	4,118	4,115	145	3.5
Reconciling Items	**(7)**	(4)	(1)	(3)	N/M
Total	**$ 4,256**	$ 4,114	$ 4,114	$ 142	3.5%
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	**$ 256**	$ 242	$ 197	$ 14	5.8%
Key Corporate Bank	**545**	548	529	(3)	(.6)
Other Segments	**124**	158	158	(34)	(21.5)
Total Segments	**925**	948	884	(23)	(2.4)
Reconciling Items	**(10)**	(9)	(14)	(1)	N/M
Total	**$ 915**	$ 939	$ 870	$ (24)	(2.6)%

Key Community Bank summary of operations

As shown in Figure 13, Key Community Bank recorded net income attributable to Key of $256 million for 2015, compared to $242 million for 2014, and $197 million for 2013. The increase in 2015 was primarily due to growth in net interest income, as the value of deposits increased, and noninterest income, partially offset by higher provision for credit losses and noninterest expense.

Taxable-equivalent net interest income increased $40 million, or 2.8%, from 2014. Average loans and leases grew $729 million while average deposits increased $837 million compared to 2014. The positive contribution to

net interest income from loan and deposit growth and the increased value of deposits was partially offset by tightening credit spreads compared to one year ago.

Noninterest income increased $20 million, or 2.6% from 2014. Cards and payments income increased $16 million, or 10.5%, due to higher merchant services, purchase card, and ATM debit card income driven by increased volume. Trust and investment services income increased $5 million, or 1.7%, driven by higher insurance and brokerage commissions. Investment banking and debt placement fees and consumer mortgage fees also contributed to the higher noninterest income. These increases in noninterest income were partially offset by lower service charges on deposit accounts of $5 million, primarily due to reduced overdraft fees, and a decrease in other miscellaneous income.

The provision for loan and lease losses increased $11 million, or 18.6%, from 2014, primarily due to loan growth. Net loan charge-offs decreased $25 million from 2014 as a result of continued progress in the economic environment and further improvement in the credit quality of the portfolio.

Noninterest expense increased $27 million, or 1.5%, from 2014. Personnel expense increased $19 million, primarily due to increases in salaries and incentive and stock-based compensation. Nonpersonnel expense increased $8 million, primarily due to increased marketing spend and other support costs.

In 2014, Key Community Bank s net income attributable to Key increased $45 million from the prior year. Taxable-equivalent net interest income declined $85 million from 2013. The positive contribution to net interest income from loan and deposit growth was offset by a reduction in the value of deposits in 2014 driven by the prolonged low-rate environment. Noninterest income decreased $15 million from 2013. Service charges on deposit accounts declined $19 million from 2013, primarily due to reduced overdraft fees resulting from changes in posting order. Consumer mortgage income decreased $9 million from 2013 due to lower refinancing activity, and operating leasing income and other leasing gains declined $4 million. These decreases in noninterest income were partially offset by an $8 million increase in cards and payments income and a $9 million increase in other miscellaneous income. The provision for credit losses decreased $84 million. Noninterest expense declined $87 million from 2013. Personnel expense decreased primarily due to declines in salaries, incentive and stock-based compensation, and employee benefits expenses. Nonpersonnel expense declined primarily due to decreases in outside loan servicing fees, computer processing, intangible asset amortization, and other support costs.

Figure 13. Key Community Bank

Year ended December 31,				**Change 2015 vs. 2014**	
dollars in millions	**2015**	**2014**	**2013**	**Amount**	**Percent**
SUMMARY OF OPERATIONS					
Net interest income (TE)	**$ 1,486**	$ 1,446	$ 1,531	$ 40	2.8 %
Noninterest income	**789**	769	784	20	2.6
Total revenue (TE)	**2,275**	2,215	2,315	60	2.7
Provision for credit losses	**70**	59	143	11	18.6
Noninterest expense	**1,798**	1,771	1,858	27	1.5
Income (loss) before income taxes (TE)	**407**	385	314	22	5.7
Allocated income taxes (benefit) and TE adjustments	**151**	143	117	8	5.6
Net income (loss) attributable to Key	**$ 256**	$ 242	$ 197	$ 14	5.8 %

AVERAGE BALANCES					
Loans and leases	**$ 30,834**	$ 30,105	$ 29,311	$ 729	2.4 %
Total assets	**32,884**	32,188	31,583	696	2.2
Deposits	**51,164**	50,327	49,806	837	1.7
Assets under management at year end	**$ 33,983**	$ 39,157	$ 36,815	$ (5,174)	(13.2) %

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ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31,				Change 2015 vs. 2014	
dollars in millions	**2015**	**2014**	**2013**	**Amount**	**Percent**
NONINTEREST INCOME					
Trust and investment services income	**$ 296**	$ 291	$ 290	$ 5	1.7 %
Services charges on deposit accounts	**213**	218	237	(5)	(2.3)
Cards and payments income	**168**	152	144	16	10.5
Other noninterest income	**112**	108	113	4	3.7
Total noninterest income	**$ 789**	$ 769	$ 784	$ 20	2.6 %
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	**$ 28,400**	$ 27,526	$ 26,621	$ 874	3.2 %
Savings deposits	**2,363**	2,436	2,495	(73)	(3.0)
Certificates of deposits ($100,000 or more)	**1,588**	2,048	2,331	(460)	(22.5)
Other time deposits	**3,112**	3,489	4,078	(377)	(10.8)
Deposits in foreign office	**277**	314	279	(37)	(11.8)
Noninterest-bearing deposits	**15,424**	14,514	14,002	910	6.3
Total deposits	**$ 51,164**	$ 50,327	$ 49,806	$ 837	1.7 %
HOME EQUITY LOANS					
Average balance	**$ 10,266**	$ 10,340	$ 10,086		
Weighted-average loan-to-value ratio (at date of origination)	**71 %**	71 %	71 %		
Percent first lien positions	**61**	60	58		
OTHER DATA					
Branches	**966**	994	1,028		
Automated teller machines	**1,256**	1,287	1,335		

Key Corporate Bank summary of operations

As shown in Figure 14, Key Corporate Bank recorded net income attributable to Key of $545 million for 2015, compared to $548 million for 2014 and $529 million for 2013. The 2015 decrease was driven by increases in the provision for credit losses and noninterest expense, partially offset by an increase in revenue.

Taxable-equivalent net interest income increased $45 million, or 5.4%, in 2015 compared to 2014. The growth was primarily driven by a $45 million increase in the deposit and other borrowing spread due to a $2 billion increase in average deposit balances. Earning asset spread increased $26 million due to a $2.9 billion increase in average loan and lease balances. These increases were partially offset by decreases in other components of net interest income.

Noninterest income increased $120 million, or 14.9%, from 2014. Investment banking and debt placement fees increased $47 million due to a full-year impact of the September 2014 Pacific Crest securities acquisition as well as the strength of our business model. Trust and investment services income increased $25 million mostly due to the full-year impact of the Pacific Crest Securities acquisition. Corporate services income increased $23 million due to growth in non-yield loan fees associated with increases in loans, derivatives fees, and foreign exchange fees. Other noninterest income increased $25 million mostly driven by gains related to the disposition of certain investments held by the Real Estate Capital line of business and higher trading income.

The provision for credit losses increased $89 million, or 635.7%, from 2014, primarily due to a $2.9 billion increase in average loan and lease balances as well as a return to a more normal credit environment. Net loan charge-offs increased $58 million from 2014 due to both higher charge-offs and lower recoveries in 2015.

Noninterest expense increased $102 million, or 11.8%, from 2014. This increase was primarily driven by a $66 million increase in personnel expense due to higher incentive and stock-based compensation expense related to

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the performance of the Key Corporate Bank and the full-year impact of the September 2014 Pacific Crest Securities acquisition. In addition, there were increases in various other expense categories related to higher staffing and volume levels.

In 2014, Key Corporate Bank s net income attributable to Key increased $19 million from the prior year. Taxable-equivalent net interest income increased $45 million in 2014 compared to 2013, as increases in earning asset spread from higher earning asset balances offset a decrease in deposit spread from a decline in rates. Noninterest income increased $44 million as increases in investment banking and debt placement fees, corporate services income, and trust and investment services income more than offset decreases in mortgage servicing fees, trading income, and other noninterest income categories. The provision for credit losses decreased $4 million due to improved credit quality within the portfolio. Noninterest expense increased $57 million mostly due to higher incentive compensation expense related to the performance of the Key Corporate Bank and the partial-year impact of the September 2014 Pacific Crest Securities acquisition, as well as increases in various other expense categories.

Figure 14. Key Corporate Bank

Year ended December 31,				**Change 2015 vs. 2014**		
dollars in millions	**2015**	**2014**	**2013**	**Amount**	**Percent**	
SUMMARY OF OPERATIONS						
Net interest income (TE)	**$ 885**	$ 840	$ 795	$ 45	5.4	%
Noninterest income	**926**	806	762	120	14.9	
Total revenue (TE)	**1,811**	1,646	1,557	165	10.0	
Provision for credit losses	**103**	14	18	89	635.7	
Noninterest expense	**966**	864	807	102	11.8	
Income (loss) before income taxes (TE)	**742**	768	732	(26)	(3.4)	
Allocated income taxes and TE adjustments	**196**	218	203	(22)	(10.0)	
Net income (loss)	**546**	550	529	(4)	(.7)	
Less: Net income (loss) attributable to noncontrolling interests	**1**	2		(1)	(50.0)	
Net income (loss) attributable to Key	**$ 545**	$ 548	$ 529	$ (3)	(.6)	%
AVERAGE BALANCES						
Loans and leases	**$ 25,865**	$ 22,978	$ 20,419	$ 2,887	12.6	%
Loans held for sale	**937**	549	492	388	70.7	
Total assets	**31,610**	28,123	25,427	3,487	12.4	
Deposits	**19,042**	17,083	15,972	1,959	11.5	%
Assets under management at year end			$ 90			

ADDITIONAL KEY CORPORATE BANK DATA

Year ended December 31,				**Change 2015 vs. 2014**		

dollars in millions	2015	2014	2013	Amount	Percent
NONINTEREST INCOME					
Trust and investment services income	**$ 137**	$ 112	$ 103	$ 25	22.3 %
Investment banking and debt placement fees	**439**	392	329	47	12.0
Operating lease income and other leasing gains	**61**	64	61	(3)	(4.7)
Corporate services income	**155**	132	121	23	17.4
Service charges on deposit accounts	**43**	43	44		
Cards and payments income	**15**	14	18	1	7.1
Payments and services income	**213**	189	183	24	12.7
Mortgage servicing fees	**48**	46	58	2	4.3
Other noninterest income	**28**	3	28	25	833.3
Total noninterest income	**$ 926**	$ 806	$ 762	$ 120	14.9 %

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Other Segments

Other Segments consist of Corporate Treasury, our Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of $124 million for 2015, compared to $158 million for both 2014 and 2013. Taxable-equivalent net interest income decreased $33 million, and noninterest income declined $47 million compared to 2014, due to lower operating lease income and other leasing gains and gains from principal investments. These decreases in revenue were partially offset by a decline in noninterest expense of $23 million in 2015, primarily due to lower personnel expense.

In 2014, Other Segments net income attributable to Key was flat from the prior year. Taxable-equivalent net interest income increased $6 million and noninterest income increased $8 million. Noninterest expense declined $6 million. These improvements were partially offset by an increase in the provision for credit losses of $11 million.

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Financial Condition

Loans and loans held for sale

Figure 15 shows the composition of our loan portfolio at December 31 for each of the past five years.

Figure 15. Composition of Loans

December 31,	2015		2014		2013	
		Percent		Percent		Percent
dollars in millions	Amount	of Total	Amount	of Total	Amount	of Total
COMMERCIAL						
Commercial, financial and agricultural [(a), (b)]	**$ 31,240**	**52.2 %**	$ 27,982	48.8 %	$ 24,963	45.8 %
Commercial real estate: [(c)]						
Commercial mortgage	**7,959**	**13.3**	8,047	14.0	7,720	14.2
Construction	**1,053**	**1.7**	1,100	1.9	1,093	2.0
Total commercial real estate loans	**9,012**	**15.0**	9,147	15.9	8,813	16.2
Commercial lease financing [(d)]	**4,020**	**6.7**	4,252	7.4	4,551	8.4
Total commercial loans	**44,272**	**73.9**	41,381	72.1	38,327	70.4
CONSUMER						
Real estate residential mortgage	**2,242**	**3.7**	2,225	3.9	2,187	4.0
Home equity:						
Key Community Bank	**10,127**	**16.9**	10,366	18.1	10,340	19.0
Other	**208**	**.4**	267	.5	334	.6
Total home equity loans	**10,335**	**17.3**	10,633	18.6	10,674	19.6
Consumer other Key Community Bank	**1,600**	**2.7**	1,560	2.7	1,449	2.7
Credit cards	**806**	**1.3**	754	1.3	722	1.3
Consumer other:						
Marine	**583**	**1.0**	779	1.3	1,028	1.9
Other	**38**	**.1**	49	.1	70	.1
	621	**1.1**	828	1.4	1,098	2.0

Total consumer other												
Total consumer loans		**15,604**	**26.1**			16,000	27.9			16,130	29.6	
Total loans [(e), (f)]	**$**	**59,876**	**100.0**	**%**	$	57,381	100.0	%	$	54,457	100.0	%

	2012				2011		
		Amount	Percent of Total			Amount	Percent of Total	
COMMERCIAL								
Commercial, financial and agricultural [(a)]	$	23,242	44.0	%	$	19,759	39.9	%
Commercial real estate:								
Commercial mortgage		7,720	14.6			8,037	16.2	
Construction		1,003	1.9			1,312	2.6	
Total commercial real estate loans		8,723	16.5			9,349	18.8	
Commercial lease financing		4,915	9.3			5,674	11.4	
Total commercial loans		36,880	69.8			34,782	70.1	
CONSUMER								
Real estate residential mortgage		2,174	4.1			1,946	3.9	
Home equity:								
Key Community Bank		9,816	18.6			9,229	18.6	
Other		423	.8			535	1.1	
Total home equity loans		10,239	19.4			9,764	19.7	
Consumer other Key Community Bank		1,349	2.5			1,192	2.4	
Credit cards		729	1.4					
Consumer other:								
Marine		1,358	2.6			1,766	3.6	
Other		93	.2			125	.3	
Total consumer other		1,451	2.8			1,891	3.9	
Total consumer loans		15,942	30.2			14,793	29.9	
Total loans [(e), (f)]	$	52,822	100.0	%	$	49,575	100.0	%

(a) Loan balances include $85 million, $88 million, $94 million, and $90 million of commercial credit card balances at December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

(b) See Figure 16 for a more detailed breakdown of our commercial, financial and agricultural loan portfolio at December 31, 2015, and December 31, 2014.

(c) See Figure 17 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2015, and December 31, 2014.

(d) Commercial lease financing includes receivables held as collateral for a secured borrowing of $134 million, $302 million and $58 million at December 31, 2015, December 31, 2014, and December 31, 2013, respectively. Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt).

(e) Total loans exclude loans of $1.8 billion at December 31, 2015, $2.3 billion at December 31, 2014, $4.5 billion at December 31, 2013, $5.2 billion at December 31, 2012, and $5.8 billion at December 31, 2011, related to the discontinued operations of the education lending business.

(f) At December 31, 2015, total loans include purchased loans of $114 million, of which $11 million were PCI loans. At December 31, 2014, total loans include purchased loans of $138 million, of which $13 million were PCI loans. At December 31, 2013, total loans include purchased loans of $166 million, of which $16 million were PCI loans. At December 31, 2012, total loans included purchased loans of $217 million of which $23 million were PCI loans.

At December 31, 2015, total loans outstanding from continuing operations were $59.9 billion, compared to $57.4 billion at the end of 2014, and $54.5 billion at the end of 2013. Loans related to the discontinued operations of the education lending business and excluded from total loans were $1.8 billion at December 31, 2015, $2.3 billion at December 31, 2014, and $4.5 billion at December 31, 2013. Further information regarding our discontinued operations is provided in Note 13 (Acquisitions and Discontinued Operations). For more information on balance sheet carrying value, see Note 1 (Summary of Significant Accounting Policies) under the headings Loans and Loans Held for Sale.

Commercial loan portfolio

Commercial loans outstanding were $44.3 billion at December 31, 2015, an increase of $2.9 billion, or 7.0%, compared to December 31, 2014.

Commercial, financial and agricultural. As shown in Figure 15, our commercial, financial and agricultural loans represent 52% and 49% of our total loan portfolio at December 31, 2015, and December 31, 2014, respectively, and are the largest component of our total loans. These loans are originated by both Key Corporate Bank and Key Community Bank and consist of fixed and variable rate loans to our large, middle market and small business clients. These loans increased $3.3 billion, or 11.6%, from one year ago.

Figure 16 provides our commercial, financial and agricultural loans by industry classification as of December 31, 2015, and December 31, 2014.

Figure 16. Commercial, Financial and Agricultural Loans

	December 31, 2015			**December 31, 2014**		
dollars in millions	**Amount**	**Percent of Total**		**Amount**	**Percent of Total**	
Industry classification:						
Services	**$ 6,722**	**21.5**	**%**	$ 6,053	21.6	%
Manufacturing	**4,937**	**15.8**		4,621	16.5	
Financial services	**3,073**	**9.8**		2,844	10.2	

Public utilities	**2,581**	**8.3**	1,938	6.9
Wholesale trade	**2,302**	**7.4**	2,294	8.2
Transportation	**1,691**	**5.4**	1,407	5.0
Dealer floor plan	**1,447**	**4.6**	1,439	5.2
Retail trade	**1,231**	**3.9**	1,089	3.9
Property management	**1,059**	**3.4**	834	3.0
Mining	**802**	**2.6**	946	3.4
Agriculture/forestry/fishing	**712**	**2.3**	675	2.4
Public administration	**705**	**2.3**	501	1.8
Building contractors	**661**	**2.1**	683	2.4
Insurance	**389**	**1.2**	257	.9
Communications	**213**	**.7**	196	.7
Other	**2,715**	**8.7**	2,205	7.9
Total	**$ 31,240**	**100.0 %**	$ 27,982	100.0 %

Commercial, financial and agricultural loans increased $3.3 billion, or 11.6%, from December 31, 2014, with Key Corporate Bank increasing $3 billion and Key Community Bank up $340 million. We have experienced

growth in new high credit quality loan commitments and utilization with clients in our middle market segment and Institutional and Capital Markets business. Our two largest industry classifications services and manufacturing increased by 11.1% and 6.8%, respectively, when compared to one year ago. The services and manufacturing industries represented approximately 22% and 16%, respectively, of the total commercial, financial and agricultural loan portfolio at December 31, 2015, and approximately 22% and 17%, respectively, at December 31, 2014. At the end of 2015 and 2014, loans in the services and manufacturing industry classifications accounted for approximately 37% and 38%, respectively, of our total commercial, financial and agricultural loan portfolio.

Services, manufacturing, and public utilities are focus areas where we maintain dedicated industry verticals that are staffed by relationship managers who possess deep industry experience and knowledge. Our loans in the services classification grew by $669 million, or 11.1%, compared to last year. Loans in the manufacturing classification grew by $316 million, or 6.8% compared to the same period one year ago. Increases in lending to large corporate, middle market, and business banking clients accounted for the majority of the growth in this classification. Loans in public utilities increased by $643 million, or 33.2%, compared to December 31, 2014, due to growth from our alternative energy and renewable energy clients.

Our loans in the financial services and transportation classifications increased 8.1% and 20.2%, respectively, compared to the prior year. The increase in financial services loans was primarily attributable to growth in real estate investment trust balances. The increase in transportation loans was primarily attributable to loan growth for rail cars and shipping containers.

Our oil and gas loan portfolio, included within the public utilities and mining industry classifications in Figure 16, focuses on lending to middle market companies and represents approximately 2% of total loans outstanding at December 31, 2015. We have nearly 15 years of experience in energy lending with over 20 specialists dedicated to this sector, focusing on middle market companies, which is aligned with our relationship strategy.

The upstream segment, comprising oil and gas exploration and production, represents approximately one-half of our exposure, is primarily secured by oil and gas reserves, subject to a borrowing base, and regularly stress-tested. The midstream segment, comprising mostly distribution companies, has lower exposure to commodity risk. Oil field services exposure is minimal and concentrated in very few borrowers. This mix was essentially unchanged from the prior year. Our total commitments in the energy sector were approximately $3 billion at December 31, 2015, slightly lower than the prior year.

Commercial real estate loans. Commercial real estate loans represent 15% of our total loan portfolio at December 31, 2015, compared to 16% at December 31, 2014. These commercial real estate loans, including both owner- and nonowner-occupied properties, represented 20% of our commercial loan portfolio at December 31, 2015, compared to 22% one year ago. These loans have decreased $135 million, or 1.5%, to $9 billion at December 31, 2015, from $9.1 billion at December 31, 2014. Our commercial real estate lending business is conducted through two primary sources: our 12-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of commercial real estate located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 68% of our average year-to-date commercial real estate loans, compared to 61% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of commercial real estate.

Figure 17 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 17, this loan portfolio is diversified by both property type and geographic location of the underlying collateral.

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As presented in Figure 17, at December 31, 2015, our commercial real estate portfolio included mortgage loans of $8 billion and construction loans of $1.1 billion, representing 13% and 2%, respectively, of our total loans. Nonowner-occupied loans represented 11% of our total loans and owner-occupied loans represented 4% of our total loans. The average size of mortgage loans originated during 2015 was $5.5 million, and our largest mortgage loan at December 31, 2015, had a balance of $69.3 million. At December 31, 2015, our average construction loan commitment was $8.5 million. Our largest construction loan commitment was $48 million, and our largest construction loan amount outstanding was $43 million.

Also shown in Figure 17, at December 31, 2015, 72% of our commercial real estate loans were for nonowner-occupied properties, compared to 70% at December 31, 2014. Approximately 15% of these loans were construction loans at both December 31, 2015, and December 31, 2014. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the construction loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn, in rental rates and occupancy, would adversely affect our portfolio of construction loans.

Figure 17. Commercial Real Estate Loans

	Geographic Region								Percent of	
s	West	Southwest	Central	Midwest	Southeast	Northeast	National	Total	Total	Construction
15										
ied:										
	$ 204	$ 102	$ 69	$ 119	$ 266	$ 94	$ 144	$ 998	11.1 %	$ 181
	401	149	543	620	859	157	172	2,901	32.2	491
	218		134	127	331	206	15	1,031	11.4	161
	94	7	197	85	114	56		553	6.1	38
	133	2	45	98	35	83	167	563	6.3	57
	6		2	12	16	15	14	65	.7	
	14		11	6		6		37	.4	
	1		25	1	2	12	1	42	.5	8
	6		5	11	8	10		40	.4	32
	65	12	4	24	33	80	76	294	3.3	17
ed	1,142	272	1,035	1,103	1,664	719	589	6,524	72.4	985
	1,021	5	274	568	57	563		2,488	27.6	68
	$ 2,163	$ 277	$ 1,309	$ 1,671	$ 1,721	$ 1,282	$ 589	$ 9,012	100.0 %	$ 1,053
14										
	$ 2,518	$ 307	$ 1,261	$ 1,668	$ 1,393	$ 1,315	$ 685	$ 9,147		$ 1,100

15

ied:							
		$ 7	$ 9		$ 16	N/M	$ 7
ast ore		2	4		6	N/M	
ast 9	$ 2	5		1	8	N/M	1

West	Alaska, California, Hawaii, Idaho, Montana, Oregon, Washington, and Wyoming
Southwest	Arizona, Nevada, and New Mexico
Central	Arkansas, Colorado, Oklahoma, Texas, and Utah
Midwest	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin
Southeast	Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, Washington, D.C., and West Virginia
Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont
National	Accounts in three or more regions

During 2015, nonperforming loans related to our nonowner-occupied properties decreased by $5 million from $21 million at December 31, 2014, to $16 million at December 31, 2015, as a result of continued improvement in asset quality and market conditions. This category of loans declined by $2 million during 2014.

Since December 31, 2014, our nonowner-occupied commercial real estate portfolio has increased by approximately $84 million, or 1.3%, as many of our clients have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

Commercial lease financing. We conduct commercial lease financing arrangements through our KEF line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 9% of commercial loans at December 31, 2015, and 10% at December 31, 2014.

Commercial loan modification and restructuring

We modify and extend certain commercial loans in the normal course of business for our clients. Loan modifications vary and are handled on a case-by-case basis with strategies responsive to the specific circumstances of each loan and borrower. In many cases, borrowers have other resources and can reinforce the credit with additional capital, collateral, guarantees, or other income sources.

Modifications are negotiated to achieve mutually agreeable terms that maximize loan credit quality while at the same time meeting our clients financing needs. Modifications made to loans of creditworthy borrowers not experiencing financial difficulties and under circumstances where ultimate collection of all principal and interest is not in doubt are not classified as TDRs. In accordance with applicable accounting guidance, a loan is classified as a TDR only when the borrower is experiencing financial difficulties and a creditor concession has been granted.

Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. Loan extensions are sometimes coupled with these primary concession types. Because economic conditions have improved modestly and we have restructured loans to provide the optimal opportunity for successful repayment by the borrower, certain of our restructured loans have returned to accrual status and consistently performed under the restructured loan terms over the past year.

If loan terms are extended at less than normal market rates for similar lending arrangements, our Asset Recovery Group is consulted to help determine if any concession granted would result in designation as a TDR. Transfer to our Asset Recovery Group is considered for any commercial loan determined to be a TDR. During 2015, we had $53 million of new restructured commercial loans compared to $22 million of new restructured commercial loans in 2014.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 5 (Asset Quality).

Figure 18. Commercial TDRs by Accrual Status

December 31, *in millions*	**2015**	2014
Commercial TDRs by Accrual Status		
Nonaccruing	**$ 52**	$ 36
Accruing	**2**	4
Total Commercial TDRs	**$ 54**	$ 40

We often use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. Since the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This note structure typically will include a debt coverage ratio

of 1.2 or better of cash flow to monthly payments of market interest, and principal amortization of generally not more than 25 years. These metrics are adjusted from time to time based upon changes in long-term markets and take-out underwriting standards of our various lines of business. Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower s payment performance improves, these restructured notes typically also allow for an upgraded internal quality risk rating classification.

The B note typically is a structurally subordinate note that may or may not require any debt service until the primary payment source stabilizes and generates excess cash flow. This excess cash flow customarily is captured for application to either the A note or B note dependent upon the terms of the restructure. We evaluate the B note when we consider returning the A note to accrual status. In many cases, the B note is charged off at the same time the A note is returned to accrual status in accordance with our interpretation of accounting and regulatory guidance applicable to TDRs. Alternatively, both A and B notes may be simultaneously returned to accrual if credit metrics are supportive.

Restructured nonaccrual loans may be returned to accrual status based on a current, well-documented evaluation of the credit, which would include analysis of the borrower s financial condition, prospects for repayment under the modified terms, and alternate sources of repayment such as the value of loan collateral. We consider the borrower s ability to perform under the modified terms for a reasonable period (generally a minimum of six months) before returning the loan to accrual status. Sustained historical repayment performance prior to the restructuring also may be taken into account. The primary consideration for returning a restructured loan to accrual status is the reasonable assurance that the full contractual principal balance of the loan and the ongoing contractually required interest payments will be fully repaid. Although our policy is a guideline, considerable judgment is required to review each borrower s circumstances.

All loans processed as TDRs, including A notes and any non-charged-off B notes, are reported as TDRs during the calendar year in which the restructure took place. At December 31, 2015, we had $47 million and $7 million of A note and B note commercial TDRs, respectively.

Additional information regarding TDRs is provided in Note 5 (Asset Quality).

Extensions. Project loans typically are refinanced into the permanent commercial loan market at maturity, but they are often modified and extended. Extension terms take into account the specific circumstances of the client relationship, the status of the project, and near-term prospects for the client, the repayment source, and the collateral. In all cases, pricing and loan structure are reviewed and, where necessary, modified to ensure the loan has been priced to achieve a market rate of return and loan terms that are appropriate for the risk. Typical enhancements include one or more of the following: principal pay down, increased amortization, additional collateral, increased guarantees, and a cash flow sweep. Some maturing loans have automatic extension options built in; in those cases, pricing and loan terms cannot be altered.

Loan pricing is determined based on the strength of the borrowing entity, the strength of the guarantor, if any, and the structure and residual risk of the transaction. Therefore, pricing for an extended loan may remain the same because the loan is already priced at or above current market.

We do not consider loan extensions in the normal course of business (under existing loan terms or at market rates) as TDRs, particularly when ultimate collection of all principal and interest is not in doubt and no concession has been made. In the case of loan extensions where either collection of all principal and interest is uncertain or a concession has been made, we would analyze such credit under the applicable accounting guidance to determine whether it qualifies as a TDR. Extensions that qualify as TDRs are measured for impairment under the applicable accounting guidance.

Guarantors. We conduct a detailed guarantor analysis (1) for all new extensions of credit, (2) at the time of any material modification/extension, and (3) typically annually, as part of our on-going portfolio and loan monitoring procedures. This analysis requires the guarantor entity to submit all appropriate financial statements, including balance sheets, income statements, tax returns, and real estate schedules.

While the specific steps of each guarantor analysis may vary, the high-level objectives include determining the overall financial conditions of the guarantor entities, including size, quality, and nature of asset base; net worth (adjusted to reflect our opinion of market value); leverage; standing liquidity; recurring cash flow; contingent and direct debt obligations; and near-term debt maturities.

Borrower and guarantor financial statements are required at least annually within 90-120 days of the calendar/fiscal year end. Income statements and rent rolls for project collateral are required quarterly. We may require certain information, such as liquidity, certifications, status of asset sales or debt resolutions, and real estate schedules, to be provided more frequently.

We routinely seek performance from guarantors of impaired debt if the guarantor is solvent. We may not seek to enforce the guaranty if we are precluded by bankruptcy or we determine the cost to pursue a guarantor exceeds the value to be returned given the guarantor s verified financial condition. We often are successful in obtaining either monetary payment or the cooperation of our solvent guarantors to help mitigate loss, cost, and the expense of collections.

Mortgage and construction loans with a loan-to-value ratio greater than 1.0 are accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support. As of December 31, 2015, we did not have any mortgage and construction loans that had a loan-to-value ratio greater than 1.0.

Consumer loan portfolio

Consumer loans outstanding decreased by $396 million, or 2.5%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 98% of this portfolio at December 31, 2015, was originated from Key Community Bank within our 12-state footprint. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans in Key Community Bank decreased by $239 million, or 2.3%, over the past 12 months.

As shown in Figure 13, we hold the first lien position for approximately 61% of the Key Community Bank home equity portfolio at December 31, 2015, and 60% at December 31, 2014. For consumer loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan-to-value ratio. This information is used in establishing the ALLL. Our methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses.

Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. This regulatory guidance related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not adjusted. At December 31, 2015, 39% of our home equity portfolio is secured by second lien mortgages. On at least a quarterly basis, we continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate.

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Figure 19 summarizes our home equity loan portfolio by source at the end of each of the last five years, as well as certain asset quality statistics and yields on the portfolio as a whole.

Figure 19. Home Equity Loans

December 31, *dollars in millions*	**2015**	2014	2013	2012	2011
SOURCES OF YEAR END LOANS					
Key Community Bank	**$ 10,127**	$ 10,366	$ 10,340	$ 9,816	$ 9,229
Other	**208**	267	334	423	535
Total	**$ 10,335**	$ 10,633	$ 10,674	$ 10,239	$ 9,764
Nonperforming loans at year end	**$ 190**	$ 195	$ 220	$ 231 (a), (b)	$ 120
Net loan charge-offs for the year	**21**	32	66	118	130
Yield for the year	**3.98 %**	4.02 %	4.07 %	4.21 %	4.34 %

(a) Includes $48 million of performing home equity second liens that are subordinate to first liens and 120 days or more past due or in foreclosure, or for which the first mortgage delinquency timeframe is unknown. Such second liens are now being reported as nonperforming loans based upon regulatory guidance issued in January 2012.

(b) Includes $72 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed as addressed in regulatory guidance that was updated in the third quarter of 2012. Such loans have been designated as nonperforming and TDRs.

Loans held for sale

As shown in Note 4 (Loans and Loans Held for Sale), our loans held for sale were $639 million at December 31, 2015, compared to $734 million at December 31, 2014. During 2015, we recorded net gains from loan sales of $103 million. There were no loans held for sale related to the discontinued operations of the education lending business at December 31, 2015, and December 31, 2014.

At December 31, 2015, loans held for sale included $532 million of commercial mortgages, which decreased by $106 million from December 31, 2014, $76 million of commercial, financial and agricultural loans, which increased by $13 million from December 31, 2014, $17 million of residential mortgage loans, which decreased by $1 million from

December 31, 2014, and $14 million of commercial lease financing, which decreased by $1 million from December 31, 2014. Valuations are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves and risk profiles, as well as our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. We review our assumptions quarterly. For additional information related to the valuation of loans held for sale, see Note 6 (Fair Value Measurements).

Loan sales

As shown in Figure 20, during 2015, we sold $6.0 billion of commercial real estate loans, $415 million of commercial lease financing loans, $554 million of residential real estate loans, and $335 million of commercial loans. Most of these sales came from the held-for-sale portfolio.

Among the factors that we consider in determining which loans to sell are:

¿ our business strategy for particular lending areas;

¿ whether particular lending businesses meet established performance standards or fit with our relationship banking strategy;

¿ our A/LM needs;

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¿ the cost of alternative funding sources;

¿ the level of credit risk;

¿ capital requirements; and

¿ market conditions and pricing.

Figure 20 summarizes our loan sales for 2015 and 2014.

Figure 20. Loans Sold (Including Loans Held for Sale)

in millions	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2015					
Fourth quarter	**$ 86**	**$ 1,570**	**$ 204**	**$ 104**	**$ 1,964**
Third quarter	**150**	**1,246**	**100**	**142**	**1,638**
Second quarter	**41**	**2,210**	**48**	**188**	**2,487**
First quarter	**58**	**1,010**	**63**	**120**	**1,251**
Total	**$ 335**	**$ 6,036**	**$ 415**	**$ 554**	**$ 7,340**
2014					
Fourth quarter	$ 29	$ 2,333	$ 80	$ 103	$ 2,545
Third quarter	179	913	48	127	1,267
Second quarter	152	679	45	104	980
First quarter	16	489	39	73	617
Total	$ 376	$ 4,414	$ 212	$ 407	$ 5,409

Figure 21 shows loans that are either administered or serviced by us but not recorded on the balance sheet. The table includes loans that have been sold.

Figure 21. Loans Administered or Serviced

December 31, *in millions*	2015	2014	2013	2012	2011
Commercial real estate loans	**$ 211,274**	$ 191,407	$ 177,731	$ 107,630	$ 99,608
Education loans [(a)]	**1,339**	1,589			

Commercial lease financing	**932**	722	717	520	521
Commercial loans	**335**	344	327	343	306
Total	**$ 213,880**	$ 194,062	$ 178,775	$ 108,493	$ 100,435

(a) During the third quarter of 2014, we sold the residual interests in all of our outstanding education loan securitization trusts to a third party. At September 30, 2014, we deconsolidated the securitization trusts and removed the trust assets from our balance sheet. We retained the servicing for the loans associated with these securitization trusts. See Note 13 (Acquisitions and Discontinued Operations) for more information about this transaction.

In the event of default by a borrower, we are subject to recourse with respect to approximately $1.8 billion of the $214 billion of loans administered or serviced at December 31, 2015. Additional information about this recourse arrangement is included in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as other income) from fees for servicing or administering loans. This fee income is reduced by the amortization of related servicing assets. In addition, we earn interest income from investing funds generated by escrow deposits collected in connection with the servicing of commercial real estate loans. Additional information about our mortgage servicing assets is included in Note 9 (Mortgage Servicing Assets).

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Maturities and sensitivity of certain loans to changes in interest rates

Figure 22 shows the remaining maturities of certain commercial and real estate loans, and the sensitivity of those loans to changes in interest rates. At December 31, 2015, approximately 28.7% of these outstanding loans were scheduled to mature within one year.

Figure 22. Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates

December 31, 2015

in millions	Within One Year	One - Five Years	Over Five Years	Total
Commercial, financial and agricultural	$ 8,942	$ 17,845	$ 4,453	$ 31,240
Real estate construction	432	596	25	1,053
Real estate residential and commercial mortgage	2,838	5,549	1,814	10,201
	$ 12,212	$ 23,990	$ 6,292	$ 42,494
Loans with floating or adjustable interest rates (a)		$ 20,621	$ 3,639	$ 24,260
Loans with predetermined interest rates (b)		3,369	2,653	6,022
		$ 23,990	$ 6,292	$ 30,282

(a) Floating and adjustable rates vary in relation to other interest rates (such as the base lending rate) or a variable index that may change during the term of the loan.

(b) Predetermined interest rates either are fixed or may change during the term of the loan according to a specific formula or schedule.

Securities

Our securities portfolio totaled $19.1 billion at December 31, 2015, compared to $18.4 billion at December 31, 2014. Available-for-sale securities were $14.2 billion at December 31, 2015, compared to $13.4 billion at December 31, 2014. Held-to-maturity securities were $4.9 billion at December 31, 2015, compared to $5 billion at December 31, 2014.

As shown in Figure 23, all of our mortgage-backed securities, which include both securities available for sale and held-to-maturity securities, are issued by government-sponsored enterprises or GNMA, and are traded in liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio

and at cost for the held-to-maturity portfolio. For more information about these securities, see Note 6 (Fair Value Measurements) under the heading Qualitative Disclosures of Valuation Techniques, and Note 7 (Securities).

Figure 23. Mortgage-Backed Securities by Issuer

December 31,

in millions		**2015**		**2014**
FHLMC	**$**	**4,349**	$	5,666
FNMA		**4,511**		4,998
GNMA		**10,152**		7,636
Total [(a)]	**$**	**19,012**	$	18,300

(a) Includes securities held in the available-for-sale and held-to-maturity portfolios.

Securities available for sale

The majority of our securities available-for-sale portfolio consists of Federal Agency CMOs and mortgage-backed securities. CMOs are debt securities secured by a pool of mortgages or mortgage-backed securities. These mortgage securities generate interest income, serve as collateral to support certain pledging agreements, and

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provide liquidity value under regulatory requirements. At December 31, 2015, we had $14.2 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to $13.3 billion at December 31, 2014.

We periodically evaluate our securities available-for-sale portfolio in light of established A/LM objectives, changing market conditions that could affect the profitability of the portfolio, the regulatory environment, and the level of interest rate risk to which we are exposed. These evaluations may cause us to take steps to adjust our overall balance sheet positioning.

In addition, the size and composition of our securities available-for-sale portfolio could vary with our needs for liquidity and the extent to which we are required (or elect) to hold these assets as collateral to secure public funds and trust deposits. Although we generally use debt securities for this purpose, other assets, such as securities purchased under resale agreements or letters of credit, are used occasionally when they provide a lower cost of collateral or more favorable risk profiles.

Throughout 2014 and 2015, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times during this time period served to provide the liquidity necessary to address our funding requirements. These funding requirements included ongoing loan growth and occasional debt maturities. At other times, we may make additional investments that go beyond the replacement of maturities or mortgage security cash flows as our liquidity position and/or interest rate risk management strategies may require. Lastly, our focus on investing in GNMA-related securities is also related to liquidity management strategies as we continue to prepare for future regulatory requirements.

Figure 24 shows the composition, yields, and remaining maturities of our securities available for sale. For more information about these securities, including gross unrealized gains and losses by type of security and securities pledged, see Note 7.

Figure 24. Securities Available for Sale

lars in millions	**States and Political Subdivisions**	**Collateralized Mortgage Obligations** (a)	**Other Mortgage-Backed Securities** (a)	**Other Securities** (b)	**Total**	**Weighted-Average Yield**
cember 31, 15						
maining turity:						
e year or less	**$ 2**	**$ 285**			**$ 287**	**3.05%**
er one through e years	**12**	**11,209**	**$ 1,523**	**$ 13**	**12,757**	**2.12**
er five through years		**501**	**663**	**7**	**1,171**	**2.12**
er ten years			**3**		**3**	**5.40**
r value	**$ 14**	**$ 11,995**	**$ 2,189**	**$ 20**	**$ 14,218**	
nortized cost	**14**	**12,082**	**2,193**	**21**	**14,310**	**2.14%**

eighted-average ld [c]	**6.19 %**	**2.12 %**	**2.21 %**		**2.14 % [d]**	
eighted-average turity	**3.2 years**	**3.9 years**	**4.3 years**	**4.4 years**	**3.9 years**	
cember 31, 14						
r value	$ 23	$ 11,270	$ 2,035	$ 32	$ 13,360	
nortized cost	22	11,310	2,004	29	13,365	2.24%
cember 31, 13						
r value	$ 40	$ 11,000	$ 1,286	$ 20	$ 12,346	
nortized cost	39	11,120	1,270	17	12,446	2.33%

(a) Maturity is based upon expected average lives rather than contractual terms.

(b) Includes primarily marketable equity securities.

(c) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

(d) Excludes $20 million of securities at December 31, 2015, that have no stated yield.

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Held-to-maturity securities

Federal Agency CMOs and mortgage-backed securities constitute essentially all of our held-to-maturity securities. The remaining balance comprises foreign bonds and capital securities. Figure 25 shows the composition, yields and remaining maturities of these securities.

Figure 25. Held-to-Maturity Securities

dollars in millions	**Collateralized Mortgage Obligations**	**Other Mortgage-backed Securities**	**Other Securities**	**Total**	**Weighted-Average Yield** (a)
December 31, 2015					
Remaining maturity:					
One year or less			**$ 9**	**$ 9**	**2.34 %**
After one through five years	**$ 4,174**		**11**	**4,185**	**1.90**
After five through ten years		**$ 645**		**645**	**2.67**
After ten years		**58**		**58**	**2.92**
Amortized cost	**$ 4,174**	**$ 703**	**$ 20**	**$ 4,897**	**2.01 %**
Fair value	**4,129**	**699**	**20**	**4,848**	
Weighted-average yield	**1.90 %**	**2.69 %**	**2.64 %** (b)	**2.01 %** (b)	
Weighted-average maturity	**3.4 years**	**7.2 years**	**1.7 years**	**3.9 years**	
December 31, 2014					
Amortized cost	$ 4,755	$ 240	$ 20	$ 5,015	1.95 %
Fair value	4,713	241	20	4,974	
December 31, 2013					
Amortized cost	$ 4,736		$ 20	$ 4,756	1.83 %
Fair value	4,597		20	4,617	

(a) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

(b) Excludes $5 million of securities at December 31, 2015, that have no stated yield.

Other investments

Principal investments investments in equity and debt instruments made by our Principal Investing unit represented 46% and 53% of other investments at December 31, 2015, and December 31, 2014, respectively. They include direct investments (investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value. The fair value of the direct investments was $69 million at December 31, 2015, and $104 million at December 31, 2014, while the fair value of the indirect investments was $235 million at December 31, 2015, and $302 million at December 31, 2014. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect principal investments. The Federal Reserve extended the conformance period to July 21, 2016, for all banking entities with respect to covered funds. The Federal Reserve also indicated its intent to exercise the authority granted by Section 13 of the Bank Holding Company Act to grant the final one-year extension until July 21, 2017. If this authority is not exercised by the Federal Reserve, Key is permitted to file for an additional extension of up to five years for illiquid funds, to retain the indirect investments for a longer period of time. We plan to apply for the extension, if not granted automatically, and hold the investments. As of December 31, 2015, we have not committed to a plan to sell these investments. For more information about the Volcker Rule, see the discussion in Item 1 under the heading Other Regulatory Developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real-estate-related investments and an indirect ownership interest in a partnership, that are carried at fair value, as well as other types of investments that generally are carried at cost. The real-estate-related investments were valued at $8 million at December 31, 2015, and $10 million at December 31, 2014. The indirect investment

in a partnership was valued at $4 million at December 31, 2014. Under the requirements of the Volcker Rule, we were required to dispose of this investment. Prior to December 31, 2015, the investment was redeemed. Additional information pertaining to the equity investment is included in the Changes in Level 3 Fair Value Measurements section of Note 6 (Fair Value Measurements).

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer s past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer s payment history, our knowledge of the industry, third-party data, and other relevant factors. As of December 31, 2015, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled $51 million, which includes $47 million of net unrealized losses. These net gains are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 6.

Deposits and other sources of funds

Domestic deposits are our primary source of funding. The composition of our average deposits is shown in Figure 5 in the section entitled Net interest income. During 2015, average domestic deposits were $70.1 billion and represented 85% of the funds we used to support loans and other earning assets, compared to $67.3 billion and 86% during 2014. NOW and money market deposit accounts increased $2.0 billion, and noninterest-bearing deposits increased $1.9 billion, reflecting continued growth in the commercial mortgage servicing business and inflows from commercial and consumer clients. These increases were partially offset by a decline in certificates of deposit.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged $1.7 billion during 2015, compared to $2.4 billion during 2014. The decrease from 2014 was caused by declines of $550 million in federal funds purchased and securities sold under repurchase agreements, $126 million in foreign office deposits, and $25 million in bank notes and other short-term borrowings.

At December 31, 2015, we had $2.4 billion in time deposits of $100,000 or more. Figure 26 shows the maturity distribution of these deposits.

Figure 26. Maturity Distribution of Time Deposits of $100,000 or More [(a)]

December 31, 2015

in millions		**Domestic Offices**		**Total**
Remaining maturity:				
Three months or less	$	324	$	324
After three through six months		366		366
After six through twelve months		542		542
After twelve months		1,160		1,160
Total	$	2,392	$	2,392

(a) There were no deposits in foreign offices at December 31, 2015.

Capital

At December 31, 2015, our shareholders equity was $10.7 billion, up $216 million from December 31, 2014. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

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CCAR and capital actions

As part of its ongoing supervisory process, the Federal Reserve requires BHCs like KeyCorp to submit an annual comprehensive capital plan and to update that plan to reflect material changes in the BHC s risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. In January 2015, we submitted to the Federal Reserve and provided to the OCC our 2015 capital plan under the annual CCAR process. On March 11, 2015, the Federal Reserve announced that it did not object to our 2015 capital plan. The 2015 capital plan includes a common share repurchase program of up to $725 million, which includes repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2015 capital plan began in the second quarter of 2015 and were suspended in the fourth quarter of 2015 due to the pending merger with First Niagara. Share repurchases are expected to be included in the upcoming 2016 CCAR submission.

During 2015, we repurchased $252 million of common shares under our 2015 capital plan authorization. In addition, during the first quarter of 2015, we repurchased $208 million of common shares under our 2014 capital plan for a total of $460 million of common share repurchases during 2015.

Dividends

As previously reported, our 2015 capital plan proposed an increase in our quarterly common share dividend from $.065 to $.075 per share, which was approved by our Board in May 2015. An additional potential increase in our quarterly common share dividend, up to $.085 per share, will be considered by the Board in 2016 for the fifth quarter of the 2015 capital plan. Other changes to future dividends may be evaluated by the Board based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital planning process and CCAR is included in the Supervision and Regulation section of Item 1 of this report under the heading Regulatory capital and liquidity.

Consistent with the 2015 capital plan, we made a dividend payment of $.075 per share during each of the second, third, and fourth quarters of 2015, totalling $189 million, and a dividend payment of $.065 per share, or $55 million, during the first quarter of 2015.

We also made quarterly dividend payments of $1.9375 per share on our Series A Preferred Stock during each quarter of 2015 for a total of $23 million.

Common shares outstanding

Our common shares are traded on the New York Stock Exchange under the symbol KEY with 27,058 holders of record at December 31, 2015. Our book value per common share was $12.51 based on 835.8 million shares outstanding at December 31, 2015, compared to $11.91 based on 859.4 million shares outstanding at December 31, 2014. At December 31, 2015, our tangible book value per common share was $11.22, compared to $10.65 at December 31, 2014.

Figure 45 in the section entitled Fourth Quarter Results shows the market price ranges of our common shares, per common share earnings, and dividends paid by quarter for each of the last two years.

Figure 27 compares the price performance of our common shares (based on an initial investment of $100 on December 31, 2010, and assuming reinvestment of dividends) with that of the Standard & Poor s 500 Index and a group of other banks that constitute our peer group. The peer group consists of the banks that make up the Standard & Poor s 500 Regional Bank Index and the banks that make up the Standard & Poor s 500 Diversified Bank Index. We are

included in the Standard & Poor s 500 Index and the peer group.

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Figure 27. Common Share Price Performance (2011 2015)[(a)]

(a) Share price performance is not necessarily indicative of future price performance.

Figure 28 shows activities that caused the change in our outstanding common shares over the past two years.

Figure 28. Changes in Common Shares Outstanding

		2015 Quarters				
in thousands	**2015**	**Fourth**	**Third**	**Second**	**First**	**2014**
Shares outstanding at beginning of period	**859,403**	**835,285**	**843,608**	**850,920**	**859,403**	890,724
Common shares repurchased	**(31,267)**		**(8,386)**	**(8,794)**	**(14,087)**	(36,285)
Shares reissued (returned) under employee benefit plans	**7,582**	**466**	**63**	**1,482**	**5,571**	4,964
Series A Preferred Stock exchanged for common shares	**33**				**33**	
Shares outstanding at end of period	**835,751**	**835,751**	**835,285**	**843,608**	**850,920**	859,403

At December 31, 2015, we had 181.2 million treasury shares, compared to 157.6 million treasury shares at December 31, 2014. During 2015, common shares outstanding decreased by 24 million shares due to common share repurchases under our 2014 and 2015 capital plans, partially offset by the net share activity under our employee benefit plans and shares of Series A Preferred Stock that were exchanged for common shares. Going forward, we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

As discussed in further detail in the Supervision and Regulation section in Item 1 of this report under the heading Capital planning and stress testing, we are required to annually submit a capital plan to the Federal Reserve setting forth planned capital actions, including any share repurchases our Board of Directors and management intend to make during the year (subject to the Federal Reserve s notice of non-objection). Pursuant to that requirement, we will submit our 2016 capital plan to the Federal Reserve for review in April 2016.

Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remained in excess of regulatory requirements at December 31, 2015. Our capital and liquidity levels are intended to position us to weather an adverse credit cycle while continuing to serve our clients needs, as well as to meet the Regulatory Capital Rules described in the Supervision and regulation section of Item 1 of this report. Our shareholders equity to assets ratio was 11.30% at December 31, 2015, compared to 11.22% at December 31, 2014. Our tangible common equity to

tangible assets ratio was 9.98% at December 31, 2015, compared to 9.88% at December 31, 2014.

Federal banking regulators have promulgated minimum risk-based capital and leverage ratio requirements for BHCs like KeyCorp and their banking subsidiaries like KeyBank. As of January 1, 2015, Key and KeyBank (consolidated) were each required to maintain a minimum Tier 1 risk-based capital ratio of 6.00%, a total risk-based capital ratio of 8.00%, and a Tier 1 leverage ratio of 4.00%. At December 31, 2015, our Tier 1 risk-based capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio were 11.35%, 12.97%, and 10.72%, respectively, compared to 11.90%, 13.89%, and 11.26%, respectively, at December 31, 2014. In addition, as of January 1, 2015, Key and KeyBank (consolidated) were each required to maintain a minimum Common Equity Tier 1 capital ratio of 4.5%. At December 31, 2015, our Common Equity Tier 1 capital ratio was 10.94%.

The adoption of the Regulatory Capital Rules changes the regulatory capital standards that apply to BHCs by phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, which began January 1, 2015, for standardized approach banking organizations such as KeyCorp, will result in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital starting in 2016. The trust preferred securities issued by the KeyCorp capital trusts contribute $85 million, or 9 basis points, to our Tier 1 risk-based capital ratio of 11.35% and Tier 1 leverage ratio of 10.72% at December 31, 2015. The trust preferred securities contribute $340 million, or 38 basis points, to our total risk-based capital ratio of 12.97% at December 31, 2015. The new minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of Key at December 31, 2015, calculated on a fully phased-in basis, are set forth under the heading New minimum capital and leverage ratio requirements in the Supervision and Regulation section in Item 1 of this report.

As previously indicated in the Supervision and Regulation section of Item 1 of this report under the heading Revised prompt corrective action capital category ratios, the prompt corrective action capital category regulations do not apply to BHCs. If, however, these regulations did apply to BHCs, we believe KeyCorp would qualify for the well capitalized capital category at December 31, 2015. Moreover, after accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and as Tier 2 instead) as of December 31, 2015, we estimate KeyCorp would still qualify for the well capitalized capital category under the Regulatory Capital Rules, with an estimated Tier 1 risk-based capital ratio, estimated Tier 1 leverage ratio, estimated Common Equity Tier 1 capital ratio, and estimated total risk-based capital ratio of 11.26%, 10.63%, 10.94%, and 12.97%, respectively. The new threshold ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules are described in the Supervision and Regulation section of Item 1 of this report under the heading Revised prompt corrective action capital category ratios. Since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in the section Regulatory capital and liquidity in Supervision and Regulation under Item 1 of this report.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve s assessment of capital adequacy previously focused on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of SIFIs, including KeyCorp. The capital modifications mandated by the Regulatory Capital Rules, which became effective on January 1, 2015, for Key, require higher and better-quality capital and introduced a new capital measure, Common Equity Tier 1. Common Equity Tier 1 is not formally defined by GAAP and is considered to be a non-GAAP financial measure. Figure 4 in the Highlights of Our Performance section reconciles Key shareholders equity, the GAAP performance measure, to Common Equity Tier 1, the corresponding non-GAAP measure. Our Common Equity Tier 1 ratio was 10.94% at December 31, 2015.

At December 31, 2015, for Key s consolidated operations, we had a federal net deferred tax asset of $289 million and a state deferred tax asset of $32 million, compared to a federal net deferred tax asset of $195 million and a state deferred tax asset of $22 million at December 31, 2014. We had a valuation allowance against the gross deferred tax assets

associated with certain state net operating loss carryforwards and state credit carryforwards of

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less than $1 million at December 31, 2015, and at December 31, 2014. Starting with the implementation of the Regulatory Capital Rules on January 1, 2015, deferred tax assets that arise from net operating loss and tax credit carryforwards are deductible from Common Equity Tier 1 on a phase-in basis. As of December 31, 2015, this balance was approximately $1 million.

Figure 29 represents the details of our regulatory capital position at December 31, 2015, under the Regulatory Capital Rules.

Figure 30 represents the details of our regulatory capital position at December 31, 2014.

Figure 29. Capital Components and Risk-Weighted Assets (Regulatory Capital Rules)

December 31,

dollars in millions		**2015**
COMMON EQUITY TIER 1		
Key shareholders equity (GAAP)	**$**	**10,746**
Less: Series A Preferred Stock [a]		**281**
Common Equity Tier 1 capital before adjustments and deductions		**10,465**
Less: Goodwill, net of deferred taxes		**1,034**
Intangible assets, net of deferred taxes		**26**
Deferred tax assets		**1**
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes		**(58)**
Accumulated gains (losses) on cash flow hedges, net of deferred taxes		**(20)**
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes		**(365)**
Total Common Equity Tier 1 capital	**$**	**9,847**
TIER 1 CAPITAL		
Common Equity Tier 1	**$**	**9,847**
Additional Tier 1 capital instruments and related surplus		**281**
Non-qualifying capital instruments subject to phase out		**85**
Less: Deductions		**1**
Total Tier 1 capital		**10,212**
TIER 2 CAPITAL		
Tier 2 capital instruments and related surplus		**578**
Allowance for losses on loans and liability for losses on lending-related commitments [b]		**881**
Net unrealized gains on available-for-sale preferred stock classified as an equity security		
Less: Deductions		
Total Tier 2 capital		**1,459**
Total risk-based capital	**$**	**11,671**
RISK-WEIGHTED ASSETS		
Risk-weighted assets on balance sheet	**$**	**67,390**
Risk-weighted off-balance sheet exposure		**21,983**
Market risk-equivalent assets		**607**
Gross risk-weighted assets		**89,980**

Less: Excess allowance for loan and lease losses		
Net risk-weighted assets	$	**89,980**
AVERAGE QUARTERLY TOTAL ASSETS	$	**95,272**
CAPITAL RATIOS		
Tier 1 risk-based capital		**11.35** %
Total risk-based capital		**12.97**
Leverage [c]		**10.72**
Common Equity Tier 1		**10.94**

(a) Net of capital surplus.

(b) The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the institution s standardized total risk-weighted assets (excluding its standardized market risk-weighted assets). The ALLL includes $28 million of allowance classified as discontinued assets on the balance sheet at December 31, 2015.

(c) This ratio is Tier 1 capital divided by average quarterly total assets as defined by the Federal Reserve less: (i) goodwill, (ii) the disallowed intangible and deferred tax assets, and (iii) other deductions from assets for leverage capital purposes.

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Figure 30. Capital Components and Risk-Weighted Assets

December 31,

dollars in millions		**2014**	
TIER 1 CAPITAL			
Key shareholders equity	$	10,530	
Qualifying capital securities		339	
Less: Goodwill		1,057	
Accumulated other comprehensive income [a]		(395)	
Other assets [b]		83	
Total Tier 1 capital		10,124	
TIER 2 CAPITAL			
Allowance for losses on loans and liability for losses on lending-related commitments [c]		859	
Net unrealized gains on equity securities available for sale		1	
Qualifying long-term debt		840	
Total Tier 2 capital		1,700	
Total risk-based capital	$	11,824	
TIER 1 COMMON EQUITY			
Tier 1 capital	$	10,124	
Less: Qualifying capital securities		339	
Series A Preferred Stock [d]		282	
Total Tier 1 common equity	$	9,503	
RISK-WEIGHTED ASSETS			
Risk-weighted assets on balance sheet	$	66,054	
Risk-weighted off-balance sheet exposure		19,360	
Less: Goodwill		1,057	
Other assets [b]		120	
Plus: Market risk-equivalent assets		863	
Gross risk-weighted assets		85,100	
Less: Excess allowance for loan and lease losses			
Net risk-weighted assets	$	85,100	
AVERAGE QUARTERLY TOTAL ASSETS	$	91,116	
CAPITAL RATIOS			
Tier 1 risk-based capital		11.90	%
Total risk-based capital		13.89	
Leverage [e]		11.26	
Tier 1 common equity		11.17	

(a) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

(b) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014.

(c) The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The ALLL includes $29 million of allowance classified as discontinued assets on the balance sheet at December 31, 2014.

(d) Net of capital surplus.

(e) This ratio is Tier 1 capital divided by average quarterly total assets as defined by the Federal Reserve less: (i) goodwill, (ii) the disallowed intangible assets described in footnote (b), and (iii) deductible portions of nonfinancial equity investments; plus assets derecognized as an offset to AOCI resulting from the adoption and subsequent application of the applicable accounting guidance for defined benefit and other postretirement plans.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-balance sheet arrangements

We are party to various types of off-balance sheet arrangements, which could lead to contingent liabilities or risks of loss that are not reflected on the balance sheet.

Variable interest entities

A VIE is a partnership, limited liability company, trust, or other legal entity that meets any one of the following criteria:

¿ The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.

¿ The entity s investors lack the power to direct the activities that most significantly impact the entity s economic performance.

¿ The entity s equity at risk holders do not have the obligation to absorb losses or the right to receive residual returns.

¿ The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity s activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity s economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Additional information regarding the nature of VIEs and our involvement with them is included in Note 1 (Summary of Significant Accounting Policies) under the heading Basis of Presentation, and in Note 11 (Variable Interest Entities).

We use the equity method to account for unconsolidated investments in voting rights entities or VIEs if we have significant influence over the entity s operating and financing decisions (usually defined as a voting or economic interest of 20% to 50%, but not controlling). Unconsolidated investments in voting rights entities or VIEs in which we have a voting or economic interest of less than 20% generally are carried at cost. Investments held by our registered broker-dealer and investment company subsidiaries (primarily principal investments) are carried at fair value.

Commitments to extend credit or funding

Loan commitments provide for financing on predetermined terms as long as the client continues to meet specified criteria. These commitments generally carry variable rates of interest and have fixed expiration dates or other termination clauses. We typically charge a fee for our loan commitments. Since a commitment may expire without

resulting in a loan or being fully utilized, the total amount of an outstanding commitment may significantly exceed any related cash outlay. Further information about our loan commitments at December 31, 2015, is presented in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Commitments to Extend Credit or Funding. Figure 31 shows the remaining contractual amount of each class of commitment to extend credit or funding. For loan commitments and commercial letters of credit, this amount represents our maximum possible accounting loss on the unused commitment if the borrower were to draw upon the full amount of the commitment and subsequently default on payment for the total amount of the then outstanding loan.

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Other off-balance sheet arrangements

Other off-balance sheet arrangements include financial instruments that do not meet the definition of a guarantee in accordance with the applicable accounting guidance, and other relationships, such as liquidity support provided to asset-backed commercial paper conduits, indemnification agreements and intercompany guarantees. Information about such arrangements is provided in Note 20 under the heading Other Off-Balance Sheet Risk.

Contractual obligations

Figure 31 summarizes our significant contractual obligations, and lending-related and other off-balance sheet commitments at December 31, 2015, by the specific time periods in which related payments are due or commitments expire.

Figure 31. Contractual Obligations and Other Off-Balance Sheet Commitments

December 31, 2015 *in millions*	**Within 1 year**	**After 1 through 3 years**	**After 3 through 5 years**	**After 5 years**	**Total**
Contractual obligations: [a]					
Deposits with no stated maturity	$ 65,527				$ 65,527
Time deposits of $100,000 or more	1,232	$ 1,056	$ 39	$ 65	2,392
Other time deposits	2,075	883	59	110	3,127
Federal funds purchased and securities sold under repurchase agreements	372				372
Bank notes and other short-term borrowings	533				533
Long-term debt	1,346	3,156	2,790	2,894	10,186
Noncancelable operating leases	110	190	130	326	756
Liability for unrecognized tax benefits	12				12
Purchase obligations:					
Banking and financial data services	71	129	20		220
Telecommunications	23	23	7		53
Professional services	35	21	8		64
Technology equipment and software	53	94	38	16	201
Other	17	17	7		41
Total purchase obligations	199	284	80	16	579
Total	$ 71,406	$ 5,569	$ 3,098	$ 3,411	$ 83,484

Lending-related and other off-balance sheet commitments:										
Commercial, including real estate	$	9,508	$	9,247	$	9,757	$	1,259	$	29,771
Home equity		318		1,139		908		4,855		7,220
Credit cards		3,603								3,603
Purchase cards		163								163
When-issued and to-be-announced securities commitments		2								2
Commercial letters of credit		127		12						139
Principal investing commitments		30		16		4				50
Tax credit investment commitments		410								410
Liabilities of certain limited partnerships and other commitments		1								1
Total	$	14,162	$	10,414	$	10,669	$	6,114	$	41,359

(a) Deposits and borrowings exclude interest.

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Guarantees

We are a guarantor in various agreements with third parties. As guarantor, we may be contingently liable to make payments to the guaranteed party based on changes in a specified interest rate, foreign exchange rate or other variable (including the occurrence or nonoccurrence of a specified event). These variables, known as underlyings, may be related to an asset or liability, or another entity s failure to perform under a contract. Additional information regarding these types of arrangements is presented in Note 20 under the heading Guarantees.

Risk Management

Overview

Like all financial services companies, we engage in business activities and assume the related risks. The most significant risks we face are credit, compliance, operational, liquidity, market, reputation, strategic, and model risks. Our risk management activities are focused on ensuring we properly identify, measure, and manage such risks across the entire enterprise to maintain safety and soundness and maximize profitability. Certain of these risks are defined and discussed in greater detail in the remainder of this section.

The Board serves in an oversight capacity ensuring that Key s risks are managed in a manner that is effective and balanced and adds value for the shareholders. The Board understands Key s risk philosophy, approves the risk appetite, inquires about risk practices, reviews the portfolio of risks, compares the actual risks to the risk appetite, and is apprised of significant risks, both actual and emerging, and determines whether management is responding appropriately. The Board challenges management and ensures accountability.

The Board s Audit Committee assists the Board in oversight of financial statement integrity, regulatory and legal requirements, independent auditors qualifications and independence, and the performance of the internal audit function and independent auditors. The Audit Committee meets with management and approves significant policies relating to the risk areas overseen by the Audit Committee. The Audit Committee has responsibility over all risk review functions, including internal audit, as well as financial reporting, legal matters, and fraud risk. The Audit Committee also receives reports on enterprise risk. In addition to regularly scheduled bi-monthly meetings, the Audit Committee convenes to discuss the content of our financial disclosures and quarterly earnings releases.

The Board s Risk Committee assists the Board in oversight of strategies, policies, procedures, and practices relating to the assessment and management of enterprise-wide risk, including credit, market, liquidity, model, operational, compliance, reputation, and strategic risks. The Risk Committee also assists the Board in overseeing risks related to capital adequacy, capital planning, and capital actions. The Risk Committee reviews and provides oversight of management s activities related to the enterprise-wide risk management framework, which includes review of the ERM Policy, including the Risk Appetite Statement, and management and ERM reports. The Risk Committee also approves any material changes to the charter of the ERM Committee and significant policies relating to risk management.

The Audit and Risk Committees meet jointly, as appropriate, to discuss matters that relate to each committee s responsibilities. Committee chairpersons routinely meet with management during interim months to plan agendas for upcoming meetings and to discuss emerging trends and events that have transpired since the preceding meeting. All members of the Board receive formal reports designed to keep them abreast of significant developments during the interim months.

Our ERM Committee, chaired by the Chief Executive Officer and comprising other senior level executives, is responsible for managing risk and ensuring that the corporate risk profile is managed in a manner consistent with our

risk appetite. The ERM Program encompasses our risk philosophy, policy, framework, and governance structure for the management of risks across the entire company. The ERM Committee reports to the Board s

Risk Committee. Annually, the Board reviews and approves the ERM Policy, as well as the risk appetite, including corporate risk tolerances for major risk categories. We use a risk-adjusted capital framework to manage risks. This framework is approved and managed by the ERM Committee.

Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks, and discussing forward-looking assessments. Risk Governance Committees include attendees from each of the Three Lines of Defense. The First Line of Defense is the Line of Business primarily responsible to accept, own, proactively identify, monitor, and manage risk. The Second Line of Defense comprises Risk Management representatives who provide independent, centralized oversight over all risk categories by aggregating, analyzing, and reporting risk information. Risk Review, our internal audit function, provides the Third Line of Defense in their role to provide independent assessment and testing of the effectiveness, appropriateness, and adherence to KeyCorp s risk management policies, practices, and controls.

The Chief Risk Officer ensures that relevant risk information is properly integrated into strategic and business decisions, ensures appropriate ownership of risks, provides input into performance and compensation decisions, assesses aggregate enterprise risk, monitors capabilities to manage critical risks, and executes appropriate Board and stakeholder reporting.

Federal banking regulators continue to emphasize with financial institutions the importance of relating capital management strategy to the level of risk at each institution. We believe our internal risk management processes help us achieve and maintain capital levels that are commensurate with our business activities and risks, and conform to regulatory expectations.

Market risk management

Market risk is the risk that movements in market risk factors, including interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, and volatilities will reduce Key s income and the value of its portfolios. These factors influence prospective yields, values, or prices associated with the instrument. For example, the value of a fixed-rate bond will decline when market interest rates increase, while the cash flows associated with a variable rate loan will increase when interest rates increase. The holder of a financial instrument is exposed to market risk when either the cash flows or the value of the instrument is tied to such external factors.

We are exposed to market risk both in our trading and nontrading activities, which include asset and liability management activities. Our trading positions are carried at fair value with changes recorded in the income statement. These positions are subject to various market-based risk factors that impact the fair value of the financial instruments in the trading category. Our traditional banking loan and deposit products as well as long-term debt and certain short-term borrowings are nontrading positions. These positions are generally carried at the principal amount outstanding for assets and the amount owed for liabilities. The nontrading positions are subject to changes in economic value due to varying market conditions, primarily changes in interest rates.

Trading market risk

Key incurs market risk as a result of trading, investing, and client facilitation activities, principally within our investment banking and capital markets businesses. Key has exposures to a wide range of interest rates, equity prices, foreign exchange rates, credit spreads, and commodity prices, as well as the associated implied volatilities and spreads. Our primary market risk exposures are a result of trading activities in the derivative and fixed income markets and maintaining positions in these instruments. We maintain modest trading inventories to facilitate customer flow, make markets in securities, and hedge certain risks. The majority of our positions are traded in active markets.

Management of trading market risks. Market risk management is an integral part of Key s risk culture. The Risk Committee of our Board provides oversight of trading market risks. The ERM Committee and the Market Risk Committee regularly review and discuss market risk reports prepared by our MRM that contain our market risk exposures and results of monitoring activities. Market risk policies and procedures have been defined and approved by the Market Risk Committee, a Tier 2 Risk Governance Committee, and take into account our tolerance for risk and consideration for the business environment.

The MRM is an independent risk management function that partners with the lines of business to identify, measure, and monitor market risks throughout our company. The MRM is responsible for ensuring transparency of significant market risks, monitoring compliance with established limits, and escalating limit exceptions to appropriate senior management. The various business units and trading desks are responsible for ensuring that market risk exposures are well-managed and prudent. Market risk is monitored through various measures, such as VaR, and through routine stress testing, sensitivity, and scenario analyses. The MRM conducts stress tests for each covered position using historical worst case and standard shock scenarios. VaR, stressed VaR, and other analyses are prepared daily and distributed to appropriate management.

Covered positions. We monitor the market risk of our covered positions, which includes all of our trading positions as well as all foreign exchange and commodity positions, regardless of whether the position is in a trading account. All positions in the trading account are recorded at fair value, and changes in fair value are reflected in our consolidated statements of income. Information regarding our fair value policies, procedures, and methodologies is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements , and Note 6 (Fair Value Measurements) in this report. Instruments that are used to hedge nontrading activities, such as bank-issued debt and loan portfolios, equity positions that are not actively traded, and securities financing activities, do not meet the definition of a covered position. The MRM is responsible for identifying our portfolios as either covered or non-covered. The Covered Position Working Group develops the final list of covered positions, and a summary is provided to the Market Risk Committee.

Our significant portfolios of covered positions are detailed below. We analyze market risk by portfolios of covered positions, and do not separately measure and monitor our portfolios by risk type. The descriptions below incorporate the respective risk types associated with each of these portfolios.

¿ Fixed income includes those instruments associated with our capital markets business and the trading of securities as a dealer. These instruments may include positions in municipal bonds, bonds backed by the U.S. government, agency and corporate bonds, certain mortgage-backed securities, securities issued by the U.S. Treasury, money markets, and certain CMOs. The activities and instruments within the fixed income portfolio create exposures to interest rate and credit spread risks.

¿ Interest rate derivatives include interest rate swaps, caps, and floors, which are transacted primarily to accommodate the needs of commercial loan clients. In addition, we enter into interest rate derivatives to offset or mitigate the interest rate risk related to the client positions. The activities within this portfolio create exposures to interest rate risk.

¿ Credit derivatives generally include credit default swap indexes, which are used to manage the credit risk exposure associated with anticipated sales of certain commercial real estate loans. The transactions within the

credit derivatives portfolio result in exposure to counterparty credit risk and market risk.

VaR and stressed VaR. VaR is the estimate of the maximum amount of loss on an instrument or portfolio due to adverse market conditions during a given time interval within a stated confidence level. Stressed VaR is used to assess extreme conditions on market risk within our trading portfolios. MRM calculates VaR and stressed VaR on a daily basis, and the results are distributed to appropriate management. VaR and stressed VaR results are also provided to our regulators and utilized in regulatory capital calculations.

We use a historical VaR model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions. Historical scenarios

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are customized for specific covered positions, and numerous risk factors are incorporated in the calculation. Additional consideration is given to the risk factors to estimate the exposures that contain optionality features, such as options and cancelable provisions. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level.

The VaR model is an effective tool in estimating ranges of possible gains and losses on our covered positions. However, there are limitations inherent in the VaR model since it uses historical results over a given time interval to estimate future performance. Historical results may not be indicative of future results, and changes in the market or composition of our portfolios could have a significant impact on the accuracy of the VaR model. We regularly review and enhance the modeling techniques, inputs and assumptions used. Our market risk policy includes the independent validation of our VaR model by Key s Risk Management Group on an annual basis. The Model Risk Management Committee oversees the Model Validation Program, and results of validations are discussed with the ERM Committee.

Actual losses for the total covered positions did not exceed aggregate daily VaR on any day during the quarters ended December 31, 2015, and December 31, 2014. The MRM backtests our VaR model on a daily basis to evaluate its predictive power. The test compares VaR model results at the 99% confidence level to daily held profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR.

We do not engage in correlation trading, or utilize the internal model approach for measuring default and credit migration risk. Our net VaR approach incorporates diversification, but our VaR calculation does not include the impact of counterparty risk and our own credit spreads on derivatives.

The aggregate VaR at the 99% confidence level for all covered positions was $1.2 million at December 31, 2015, and $.9 million at December 31, 2014. The increase in aggregate VaR was primarily due to the increased exposure in our credit derivative portfolio, and the composition of our fixed income portfolio. Figure 32 summarizes our VaR at the 99% confidence level for significant portfolios of covered positions for the three months ended December 31, 2015, and December 31, 2014. During this period, none of our significant portfolios daily trading VaR numbers exceeded their VaR limits or stress VaR limits.

Figure 32. VaR for Significant Portfolios of Covered Positions

	2015				**2014**			
	Three months ended December 31,				**Three months ended December 31,**			
in millions	**High**	**Low**	**Mean**	**December 31,**	**High**	**Low**	**Mean**	**December 31,**
Trading account assets:								
Fixed income	**$ 1.0**	**$ .4**	**$ .6**	**$ .5**	$ .5	$ .3	$ .4	$ .4
Derivatives:								
Interest rate	**$ .1**		**$ .1**	**$ .1**	$ .3		$ .1	$ .1
Credit	**.4**	**$ .2**	**.3**	**.4**	.3	$ .1	.2	.3

Stressed VaR is calculated using our general VaR results at the 99% confidence level and applying certain assumptions. The aggregate stressed VaR for all covered positions was $3.5 million at December 31, 2015, and $2.6

million at December 31, 2014. Figure 33 summarizes our stressed VaR for significant portfolios of covered positions for the three months ended December 31, 2015, and December 31, 2014, as used for market risk capital charge calculation purposes.

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Figure 33. Stressed VaR for Significant Portfolios of Covered Positions

	2015				**2014**			
	Three months ended December 31,				**Three months ended December 31,**			
in millions	**High**	**Low**	**Mean**	**December 31,**	**High**	**Low**	**Mean**	**December 31,**
Trading account assets:								
Fixed income	**$ 3.0**	**$ 1.3**	**$ 1.9**	**$ 1.5**	$ 1.6	$ .8	$ 1.2	$ 1.2
Derivatives:								
Interest rate	**$ .3**	**$ .1**	**$ .2**	**$ .3**	$ .8	$ .1	$ .2	$ .2
Credit	**1.3**	**.5**	**.9**	**1.3**	1.0	.4	.7	.9

Internal capital adequacy assessment. Market risk is a component of our internal capital adequacy assessment. Our risk-weighted assets include a market risk-equivalent asset position, which consists of a VaR component, stressed VaR component, a de minimis exposure amount, and a specific risk add-on, which are added together to arrive at total market risk equivalent assets. Specific risk is the price risk of individual financial instruments, which is not accounted for by changes in broad market risk factors and is measured through a standardized approach. Specific risk calculations are run quarterly by the MRM, and approved by the Chief Market Risk Officer.

Nontrading market risk

Most of our nontrading market risk is derived from interest rate fluctuations and its impacts on our traditional loan and deposit products, as well as investments, hedging relationships, long-term debt, and certain short-term borrowings. Interest rate risk, which is inherent in the banking industry, is measured by the potential for fluctuations in net interest income and the EVE. Such fluctuations may result from changes in interest rates and differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. We manage the exposure to changes in net interest income and the EVE in accordance with our risk appetite and within Board-approved policy limits.

Interest rate risk positions are influenced by a number of factors including the balance sheet positioning that arises out of consumer preferences for loan and deposit products, economic conditions, the competitive environment within our markets, changes in market interest rates that affect client activity, and our hedging, investing, funding, and capital positions. The primary components of interest rate risk exposure consist of reprice risk, basis risk, yield curve risk, and option risk.

The management of nontrading market risk is centralized within Corporate Treasury. The Risk Committee of our Board provides oversight of nontrading market risk. The ERM Committee and the ALCO review reports on the components of interest rate risk described above as well as sensitivity analyses of these exposures. These committees have various responsibilities related to managing nontrading market risk, including recommending, approving, and monitoring strategies that maintain risk positions within approved tolerance ranges. The A/LM policy provides the framework for the oversight and management of interest rate risk and is administered by the ALCO. Internal and external emerging issues are monitored on a daily basis. The MRM, as the second line of defense, provides additional oversight.

¿ ***Reprice risk*** is the exposure to changes in interest rates and occurs when the volume of interest-bearing liabilities and the volume of interest-earning assets they fund (e.g., deposits used to fund loans) do not mature or reprice at the same time.

¿ ***Basis risk*** is the exposure to asymmetrical changes in interest rate indexes and occurs when floating-rate assets and floating-rate liabilities reprice at the same time, but in response to different market factors or indexes.

¿ ***Yield curve risk*** is the exposure to non-parallel changes in the slope of the yield curve (where the yield curve depicts the relationship between the yield on a particular type of security and its term to maturity) and occurs when interest-bearing liabilities and the interest-earning assets that they fund do not price or reprice to the same term point on the yield curve.

¿ ***Option risk*** is the exposure to a customer or counterparty s ability to take advantage of the interest rate environment and terminate or reprice one of our assets, liabilities, or off-balance sheet instruments prior to contractual maturity without a penalty. Option risk occurs when exposures to customer and counterparty early withdrawals or prepayments are not mitigated with an offsetting position or appropriate compensation.

Net interest income simulation analysis. The primary tool we use to measure our interest rate risk is simulation analysis. For purposes of this analysis, we estimate our net interest income based on the current and projected composition of our on- and off-balance sheet positions, accounting for recent and anticipated trends in customer activity. The analysis also incorporates assumptions for the current and projected interest rate environments, including a most likely macro-economic scenario. Simulation modeling assumes that residual risk exposures will be managed to within the risk appetite and Board-approved policy limits.

We measure the amount of net interest income at risk by simulating the change in net interest income that would occur if the federal funds target rate were to gradually increase or decrease over the next 12 months, and term rates were to move in a similar direction, although at a slower pace. Our standard rate scenarios encompass a gradual increase or decrease of 200 basis points, but due to the low interest rate environment, we have modified the standard to a gradual decrease of 50 basis points over three months with no change over the following nine months. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the base case of an unchanged interest rate environment. We also perform regular stress tests and sensitivities on the model inputs that could materially change the resulting risk assessments. One set of stress tests and sensitivities assesses the effect of interest rate inputs on simulated exposures. Assessments are performed using different shapes of the yield curve, including steepening or flattening of the yield curve, changes in credit spreads, an immediate parallel change in market interest rates, and changes in the relationship of money market interest rates. Another set of stress tests and sensitivities assesses the effect of loan and deposit assumptions and assumed discretionary strategies on simulated exposures. Assessments are performed on changes to the following assumptions: the pricing of deposits without contractual maturities; changes in lending spreads; prepayments on loans and securities; other loan and deposit balance shifts; investment, funding and hedging activities; and liquidity and capital management strategies.

Simulation analysis produces only a sophisticated estimate of interest rate exposure based on judgments related to assumption inputs into the simulation model. We tailor assumptions to the specific interest rate environment and yield curve shape being modeled, and validate those assumptions on a regular basis. Our simulations are performed with the assumption that interest rate risk positions will be actively managed through the use of on- and off-balance sheet financial instruments to achieve the desired residual risk profile. However, actual results may differ from those derived in simulation analysis due to unanticipated changes to the balance sheet composition, customer behavior, product pricing, market interest rates, investment, funding and hedging activities, and repercussions from unanticipated or unknown events.

Figure 34 presents the results of the simulation analysis at December 31, 2015, and December 31, 2014. At December 31, 2015, our simulated exposure to changes in interest rates was moderately asset sensitive, and net interest income would benefit over time from either an increase in short-term or intermediate-term interest rates. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next 12 months would adversely affect net interest income over the same period by more than 4%. In December 2015, the Federal Reserve increased the range for the Federal Funds Target Rate, which led to an increased modeled exposure to declining interest rates. Subsequent to the Federal Reserve s action in December, we increased the magnitude of the declining rate scenario to 50 basis points, increasing our overall modeled exposure. The modeled exposure depends on the relationships of interest rates on our interest earning assets and interest bearing liabilities, notably on instruments that are expected to react to the short end of the yield curve. As shown in Figure 34, we are operating within these levels as of December 31, 2015.

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Figure 34. Simulated Change in Net Interest Income

December 31, 2015		
Basis point change assumption (short-term rates)	**-50**	**+200**
Tolerance level	**-4.00 %**	**-4.00 %**
Interest rate risk assessment	**-3.37 %**	**2.58 %**
December 31, 2014		
Basis point change assumption (short-term rates)	-25	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-.96 %	3.20 %

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicates that net interest income could increase or decrease from the base simulation results presented in Figure 34. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate increases and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. The unprecedented low level of interest rates increases the uncertainty of assumptions for deposit balance behavior and deposit repricing relationships to market interest rates. Recent balance growth in deposits has caused the uncertainty in assumptions to increase further. Our historical deposit repricing betas in the last rising rate cycle ranged between 50% and 60% for interest-bearing deposits, and we continue to make similar assumptions in our modeling. The sensitivity testing of these assumptions supports our confidence that actual results are likely to be within a 100 basis point range of modeled results.

Key will continue to monitor balance sheet flows and expects the benefit from rising rates to increase modestly prior to any increase in the federal funds rate. Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity, and repricing characteristics of loan and deposit flows. As changes occur to both the configuration of the balance sheet and the outlook for the economy, management proactively evaluates hedging opportunities that may change our interest rate risk profile.

We also conduct simulations that measure the effect of changes in market interest rates in the second and third years of a three-year horizon. These simulations are conducted in a manner similar to those based on a 12-month horizon. To capture longer-term exposures, we calculate exposures to changes of the EVE as discussed in the following section.

Economic value of equity modeling. EVE complements net interest income simulation analysis as it estimates risk exposure beyond 12-, 24-, and 36-month horizons. EVE modeling measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease in interest rates, measuring the resulting change in the values of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the base case of the current interest rate environment. Because the calculation of EVE under an immediate 200 basis point decrease in interest rates in the current low rate environment results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points, we have modified the standard declining rate scenario to an immediate 100 basis point decrease. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate

increase or decrease in interest rates. We are operating within these guidelines as of December 31, 2015.

Management of interest rate exposure. We use the results of our various interest rate risk analyses to formulate A/LM strategies to achieve the desired risk profile while managing to our objectives for capital adequacy and liquidity risk exposures. Specifically, we manage interest rate risk positions by purchasing

securities, issuing term debt with floating or fixed interest rates, and using derivatives predominantly in the form of interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities.

Figure 35 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a receive fixed/pay variable interest rate swap. The volume, maturity and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 8 (Derivatives and Hedging Activities).

Figure 35. Portfolio Swaps by Interest Rate Risk Management Strategy

	December 31, 2015					December 31, 2014	
			Weighted-Average				
dollars in millions	**Notional Amount**	**Fair Value**	**Maturity (Years)**	**Receive Rate**	**Pay Rate**	**Notional Amount**	**Fair Value**
Receive fixed/pay variable conventional A/LM [a]	**$ 11,705**	**$ 4**	**2.5**	**1.1 %**	**.3 %**	$ 9,700	$ (4)
Receive fixed/pay variable conventional debt	**7,004**	**189**	**3.5**	**2.0**	**.4**	5,124	209
Pay fixed/receive variable conventional debt	**50**	**(7)**	**12.5**	**.3**	**3.6**	50	(7)
Total portfolio swaps	**$ 18,759**	**$ 186** [b]	**2.9**	**1.4 %**	**.3 %**	$ 14,874	$ 198 [b]

(a) Portfolio swaps designated as A/LM are used to manage interest rate risk tied to both assets and liabilities.

(b)

Excludes accrued interest of $56 million and $49 million for December 31, 2015, and December 31, 2014, respectively.

Liquidity risk management

Liquidity risk, which is inherent in the banking industry, is measured by our ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund new business opportunities at a reasonable cost, in a timely manner, and without adverse consequences. Liquidity management involves maintaining sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets and liabilities under both normal and adverse conditions.

Governance structure

We manage liquidity for all of our affiliates on an integrated basis. This approach considers the unique funding sources available to each entity, as well as each entity s capacity to manage through adverse conditions. The approach also recognizes that adverse market conditions or other events that could negatively affect the availability or cost of liquidity will affect the access of all affiliates to sufficient wholesale funding.

The management of consolidated liquidity risk is centralized within Corporate Treasury. Oversight and governance is provided by the Board, the ERM Committee, the ALCO, and the Chief Risk Officer. The Asset Liability Management Policy provides the framework for the oversight and management of liquidity risk and is administered by the ALCO. The MRM, as the second line of defense, provides additional oversight. Our current liquidity risk management practices are in compliance with the Federal Reserve Board s Enhanced Prudential Standards.

These committees regularly review liquidity and funding summaries, liquidity trends, peer comparisons, variance analyses, liquidity projections, hypothetical funding erosion stress tests, and goal tracking reports. The reviews generate a discussion of positions, trends, and directives on liquidity risk and shape a number of our decisions. When liquidity pressure is elevated, positions are monitored more closely and reporting is more intensive. To ensure that emerging issues are identified, we also communicate with individuals inside and outside of the company on a daily basis.

Factors affecting liquidity

Our liquidity could be adversely affected by both direct and indirect events. An example of a direct event would be a downgrade in our public credit ratings by a rating agency. Examples of indirect events (events unrelated to us) that could impair our access to liquidity would be an act of terrorism or war, natural disasters, political events, or the default or bankruptcy of a major corporation, mutual fund or hedge fund. Similarly, market speculation, or rumors about us or the banking industry in general, may adversely affect the cost and availability of normal funding sources.

Following our announced acquisition of First Niagara in October 2015, S&P and Fitch affirmed Key s ratings but changed the outlook to negative. Moody s placed Key s ratings under review for downgrade. The Moody s review could be outstanding beyond the targeted merger completion date.

Our credit ratings at December 31, 2015, are shown in Figure 36. We believe these credit ratings, under normal conditions in the capital markets, will enable KeyCorp or KeyBank to issue fixed income securities to investors.

Figure 36. Credit Ratings

December 31, 2015	Short-Term Borrowings	Long-Term Deposits	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Series A Preferred Stock
KEYCORP (THE PARENT COMPANY)						
Standard & Poor s	A-2	N/A	BBB+	BBB	BB+	BB+
Moody s	P-2	N/A	Baa1	Baa1	Baa2	Baa3
Fitch	F1	N/A	A-	BBB+	BB+	BB
DBRS	R-2(high)	N/A	BBB(high)	BBB	BBB	N/A
KEYBANK						
Standard & Poor s	A-2	N/A	A-	BBB+	N/A	N/A
Moody s	P-1	Aa3	A3	Baa1	N/A	N/A
Fitch	F1	A	A-	BBB+	N/A	N/A
DBRS	R-1(low)	A(low)	A(low)	BBB(high)	N/A	N/A

Managing liquidity risk

Most of our liquidity risk is derived from our lending activities, which inherently places funds into illiquid assets. Liquidity risk is also derived from our deposit gathering activities and the ability of our customers to withdraw funds that do not have a stated maturity or to withdraw funds before their contractual maturity. The assessments of liquidity risk are measured under the assumption of normal operating conditions as well as under a stressed environment. We manage these exposures in accordance with our risk appetite, and within Board-approved policy limits.

We regularly monitor our liquidity position and funding sources and measure our capacity to obtain funds in a variety of hypothetical scenarios in an effort to maintain an appropriate mix of available and affordable funding. In the normal course of business, we perform a monthly hypothetical funding erosion stress test for both KeyCorp and KeyBank. In a heightened monitoring mode, we may conduct the hypothetical funding erosion stress tests more frequently, and use assumptions to reflect the changed market environment. Our testing incorporates estimates for loan and deposit lives based on our historical studies. Erosion stress tests analyze potential liquidity scenarios under various funding constraints and time periods. Ultimately, they determine the periodic effects that major direct and indirect events would have on our access to funding markets and our ability to fund our normal operations. To compensate for the effect of these assumed liquidity pressures, we consider alternative sources of liquidity and maturities over different time periods to project how funding needs would be managed.

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and

responsibilities for managing liquidity through a problem period. As part of the plan, we maintain on-balance sheet liquid reserves referred to as our liquid asset portfolio, which consists of high quality liquid assets. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at December 31, 2015, totaled $15.4 billion, consisting of $12.9 billion of unpledged securities, $584 million of securities available for secured funding at the FHLB, and $1.9 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of December 31, 2015, our unused borrowing capacity secured by loan collateral was $18.9 billion at the Federal Reserve Bank of Cleveland and $3.0 billion at the FHLB. In 2015, Key s outstanding FHLB advances were reduced by $33 million due to repayments.

Final U.S. liquidity coverage ratio

Under the Liquidity Coverage Rules, we will be required to calculate the Modified LCR for Key. Implementation for Modified LCR banking organizations, like Key, began on January 1, 2016, with a minimum requirement of 90% coverage, reaching 100% coverage by January 1, 2017. At December 31, 2015, our estimated Modified LCR was above 100%. In the future, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings to enhance or optimize our liquidity position.

Additional information about the Liquidity Coverage Ratio is included in the Supervision and Regulation section under the heading U.S. implementation of the Basel III liquidity framework in Item 1 of this report.

Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, we may use wholesale funds to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key s client-based relationship strategy provides for a strong core deposit base that, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan-to-deposit ratio as a metric to monitor these strategies. Our target loan-to-deposit ratio is 90-100% (at December 31, 2015, our loan-to-deposit ratio was 88%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by domestic deposits.

Sources of liquidity

Our primary sources of liquidity include customer deposits, wholesale funding, and liquid assets. If the cash flows needed to support operating and investing activities are not satisfied by deposit balances, we rely on wholesale funding or on-balance sheet liquid reserves. Conversely, excess cash generated by operating, investing, and deposit-gathering activities may be used to repay outstanding debt or invest in liquid assets.

Liquidity programs

We have several liquidity programs, which are described in Note 18 (Long-Term Debt), that are designed to enable KeyCorp and KeyBank to raise funds in the public and private debt markets. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. These liquidity programs are reviewed from time to time by the Board and are renewed and replaced as necessary. There are no restrictive financial covenants in any of these programs.

On February 12, 2015, KeyBank issued $1 billion of 2.250% Senior Bank Notes due March 16, 2020, under its Global Bank Note Program. On June 1, 2015, under its Global Bank Note Program, KeyBank issued $1.75 billion of Senior Bank Notes in three tranches; $250 million of Floating Rate Notes due June 1, 2018; $750

million of 1.700% Senior Notes due June 1, 2018; and $750 million of 3.300% Senior Notes due June 1, 2025. On September 29, 2015, we updated the KeyBank Global Bank Note Program. This program has $20 billion authorized for issuance, separate from the $20 billion authorized under the 2012 program. There will be no additional notes issued under the 2012 program.

On May 22, 2015, KeyBank remarketed $300 million of 3.18% Term Enhanced ReMarketable Securities senior debt.

On September 15, 2015, KeyCorp issued $1 billion of 2.90% Senior Medium-Term Notes due September 15, 2020, under its Medium-Term Note Program.

Liquidity for KeyCorp

The primary source of liquidity for KeyCorp is from subsidiary dividends, primarily from KeyBank. KeyCorp has sufficient liquidity when it can service its debt; support customary corporate operations and activities (including acquisitions); support occasional guarantees of subsidiaries obligations in transactions with third parties at a reasonable cost, in a timely manner, and without adverse consequences; and pay dividends to shareholders.

We use a parent cash coverage months metric as the primary measure to assess parent company liquidity. The parent cash coverage months metric measures the months into the future where projected obligations can be met with the current amount of liquidity. We generally issue term debt to supplement dividends from KeyBank to manage our liquidity position at or above our targeted levels. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over at least the next 24 months. At December 31, 2015, KeyCorp held $2.7 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our risk tolerance.

Typically, KeyCorp meets its liquidity requirements through regular dividends from KeyBank, supplemented with term debt. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank s dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During 2015, KeyBank paid $1 billion in dividends to KeyCorp. At January 1, 2016, KeyBank had regulatory capacity to pay $553 million in dividends to KeyCorp without prior regulatory approval.

Our liquidity position and recent activity

Over the past 12 months, our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has increased as a result of an increase in unpledged securities offset by net customer loan and deposit flows. The liquid asset portfolio continues to exceed the amount that we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer-term solution.

From time to time, KeyCorp or KeyBank may seek to retire, repurchase, or exchange outstanding debt, capital securities, preferred shares, or common shares through cash purchase, privately negotiated transactions or other means. Additional information on repurchases of common shares by KeyCorp is included in Part II, Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this report. Such transactions depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, regulatory requirements, and other factors. The amounts involved may be material, individually or collectively.

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We generate cash flows from operations and from investing and financing activities. We have approximately $185 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2015. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately $2 million in taxes to be paid. We have included the appropriate amount as a deferred tax liability at December 31, 2015.

The Consolidated Statements of Cash Flows summarize our sources and uses of cash by type of activity for the years ended December 31, 2015, and December 31, 2014.

Credit risk management

Credit risk is the risk of loss to us arising from an obligor s inability or failure to meet contractual payment or performance terms. Like other financial services institutions, we make loans, extend credit, purchase securities, and enter into financial derivative contracts, all of which have related credit risk.

Credit policy, approval, and evaluation

We manage credit risk exposure through a multifaceted program. The Credit Risk Committee approves both retail and commercial credit policies. These policies are communicated throughout the organization to foster a consistent approach to granting credit.

Our credit risk management team is responsible for credit approval, is independent of our lines of business, and consists of senior officers who have extensive experience in structuring and approving loans. Only credit risk management members are authorized to grant significant exceptions to credit policies. It is not unusual to make exceptions to established policies when mitigating circumstances dictate, but most major lending units have been assigned specific thresholds to keep exceptions at an acceptable level based upon portfolio and economic considerations.

Loan grades are assigned at the time of origination, verified by the credit risk management team and periodically reevaluated thereafter. Most extensions of credit are subject to loan grading or scoring. This risk rating methodology blends our judgment with quantitative modeling. Commercial loans generally are assigned two internal risk ratings. The first rating reflects the probability that the borrower will default on an obligation; the second rating reflects expected recovery rates on the credit facility. Default probability is determined based on, among other factors, the financial strength of the borrower, an assessment of the borrower s management, the borrower s competitive position within its industry sector, and our view of industry risk within the context of the general economic outlook. Types of exposure, transaction structure and collateral, including credit risk mitigants, affect the expected recovery assessment.

Our credit risk management team uses risk models to evaluate consumer loans. These models, known as scorecards, forecast the probability of serious delinquency and default for an applicant. The scorecards are embedded in the application processing system, which allows for real-time scoring and automated decisions for many of our products. We periodically validate the loan grading and scoring processes.

We maintain an active concentration management program to mitigate concentration risk in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the type of loan and strength of the borrower. Our legal lending limit is approximately $1.6 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of December 31, 2015, we had five client relationships with loan commitments net of credit default swaps of more than $200 million. The average amount outstanding on these five individual net obligor commitments was $45 million at

December 31, 2015. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate portfolio credit risk. We utilize credit default swaps on a limited basis to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At December 31, 2015, we used credit default swaps with a notional amount of $346 million to manage the credit risk associated with specific commercial lending obligations. We may also sell credit derivatives primarily single name credit default swaps to offset our purchased credit default swap position prior to maturity. At December 31, 2015, we did not have any sold credit default swaps outstanding.

Credit default swaps are recorded on the balance sheet at fair value. Related gains or losses, as well as the premium paid or received for credit protection, are included in the corporate services income and other income components of noninterest income.

Allowance for loan and lease losses

At December 31, 2015, the ALLL was $796 million, or 1.33% of period-end loans, compared to $794 million, or 1.38%, at December 31, 2014. The allowance includes $35 million that was specifically allocated for impaired loans of $308 million at December 31, 2015, compared to $40 million that was specifically allocated for impaired loans of $302 million at December 31, 2014. For more information about impaired loans, see Note 5 (Asset Quality). At December 31, 2015, the ALLL was 205.7% of nonperforming loans, compared to 190.0% at December 31, 2014.

Selected asset quality statistics for each of the past five years are presented in Figure 37. The factors that drive these statistics are discussed in the remainder of this section.

Figure 37. Selected Asset Quality Statistics from Continuing Operations

Year ended December 31, *dollars in millions*		**2015**			**2014**			**2013**			**2012**			**2011**	
Net loan charge-offs	**$**	**142**		$	113		$	168		$	345		$	541	
Net loan charge-offs to average total loans		**.24**	**%**		.20	%		.32	%		.69	%		1.11	%
Allowance for loan and lease losses	**$**	**796**		$	794		$	848		$	888		$	1,004	
Allowance for credit losses (a)		**852**			829			885			917			1,049	
Allowance for loan and lease losses to period-end loans		**1.33**	**%**		1.38	%		1.56	%		1.68	%		2.03	%
Allowance for credit losses to period-end loans		**1.42**			1.44			1.63			1.74			2.12	
Allowance for loan and lease losses to nonperforming loans		**205.7**			190.0			166.9			131.8			138.1	
Allowance for credit losses to nonperforming loans		**220.2**			198.3			174.2			136.1			144.3	
Nonperforming loans at period end (b)	**$**	**387**		$	418		$	508		$	674		$	727	
		403			436			531			735			859	

Nonperforming assets at period end					
Nonperforming loans to period-end portfolio loans	**.65 %**	.73 %	.93 %	1.28 %	1.47 %
Nonperforming assets to period-end portfolio loans plus					
OREO and other nonperforming assets	**.67**	.76	.97	1.39	1.73

(a) Includes the ALLL plus the liability for credit losses on lending-related unfunded commitments.

(b) Loan balances exclude $11 million, $13 million, $16 million, and $23 million of PCI loans at December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

We estimate the appropriate level of the ALLL on at least a quarterly basis. The methodology used is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses. Briefly, our allowance applies expected loss rates to existing loans with similar risk characteristics. We exercise judgment to assess any adjustment to the expected loss rates for the impact of factors such as changes in economic conditions, lending policies including underwriting standards, and the level of credit risk associated with specific industries and markets.

In the third quarter of 2015, we enhanced the approach used to determine the commercial reserve factors used in estimating the quantitative component of the commercial ALLL. In addition, we began utilizing an enhanced framework to quantify commercial ALLL adjustments resulting from qualitative factors not fully captured within the statistical analysis of incurred loss. The enhancements of the methodology are described in Note 1 (Basis of

Presentation and Accounting Policies) under the heading Allowance for Loan and Lease Losses. As a result of the methodology enhancements, the ALLL within each commercial portfolio and the provision for credit losses within each business segment has increased or decreased accordingly. The impact of the increases or decreases on the commercial portfolio ALLL and the business segment provision for credit losses was not significant.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of $2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2015, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

As shown in Figure 38, our ALLL from continuing operations remained relatively stable, increasing by $2 million, or .3%, since 2014. Our allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors, such as changes in economic conditions, underwriting standards, and concentrations of credit. Our commercial ALLL increased by $33 million, or 5.3%, since 2014 primarily because of loan growth and increased incurred loss estimates. The increase in these incurred loss estimates during 2015 was primarily due to the continued decline in oil and gas prices since 2014. Partially offsetting this increase was a decrease in our consumer ALLL of $31 million, or 18.1%, since 2014. Our consumer ALLL decrease was primarily due to continued improvement in credit metrics, such as delinquency, average credit bureau score, and loan to value, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics since 2014 was primarily due to continued improved credit quality and benefits of relatively stable economic conditions. Our liability for credit losses on lending-related commitments increased by $21 million to $56 million at December 31, 2015. When combined with our ALLL, our total allowance for credit losses represented 1.42% of period-end loans at December 31, 2015, compared to 1.44% at December 31, 2014.

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Figure 38. Allocation of the Allowance for Loan and Lease Losses

31, *millions*	2015 Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	2014 Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	2013 Total Allowance	Percent of Allowance to Total Allowance	Perc ofLoan
al, nd l	**$ 450**	**56.5 %**	**52.2 %**	$ 391	49.2 %	48.8 %	$ 362	42.7 %	
al real									
al	**134**	**16.8**	**13.3**	148	18.7	14.0	165	19.4	
on	**25**	**3.2**	**1.7**	28	3.5	1.9	32	3.8	
nercial oans	**159**	**20.0**	**15.0**	176	22.2	15.9	197	23.2	
al lease	**47**	**5.9**	**6.7**	56	7.1	7.4	62	7.3	
nercial	**656**	**82.4**	**73.9**	623	78.5	72.1	621	73.2	
	18	**2.3**	**3.7**	23	2.9	3.9	37	4.4	
ty:									
unity	**55**	**6.9**	**16.9**	66	8.3	18.1	84	9.9	
	2	**.3**	**.4**	5	.6	.5	11	1.3	
equity	**57**	**7.2**	**17.3**	71	8.9	18.6	95	11.2	
other unity	**20**	**2.5**	**2.7**	22	2.8	2.7	29	3.4	
s	**32**	**4.0**	**1.3**	33	4.1	1.3	34	4.0	
other:									
	12	**1.5**	**1.0**	21	2.7	1.3	29	3.4	
	1	**.1**	**.1**	1	.1	.1	3	.4	
umer	**13**	**1.6**	**1.1**	22	2.8	1.4	32	3.8	
umer	**140**	**17.6**	**26.1**	171	21.5	27.9	227	26.8	
	$ 796	**100.0 %**	**100.0 %**	$ 794	100.0 %	100.0 %	$ 848	100.0 %	

2012	2011

	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans
al, nd l	$ 327	36.8 %	44.0 %	$ 334	33.2 %	39.1 %
al real						
al	198	22.3	14.6	272	27.1	16.2
on	41	4.6	1.9	63	6.3	2.7
nercial oans	239	26.9	16.5	335	33.4	18.9
al lease	55	6.2	9.3	78	7.8	12.2
nercial	621	69.9	69.8	747	74.4	70.2
	30	3.4	4.1	37	3.7	3.9
ty:						
unity	105	11.8	18.6	103	10.2	18.6
	25	2.8	.8	29	2.9	1.1
equity	130	14.6	19.4	132	13.1	19.7
other unity	38	4.3	2.5	41	4.1	2.4
s	26	2.9	1.4			
other:						
	39	4.4	2.6	46	4.6	3.5
	4	.5	.2	1	.1	.3
umer	43	4.9	2.8	47	4.7	3.8
umer	267	30.1	30.2	257	25.6	29.8
	$ 888	100.0 %	100.0 %	$ 1,004	100.0 %	100.0 %

(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of $28 million at December 31, 2015, $29 million at December 31, 2014, $39 million at December 31, 2013, $55 million at December 31, 2012, and $104 million at December 31, 2011.

Our provision for credit losses was $166 million for 2015, compared to $57 million for 2014. The increase in our provision is due to the growth in our loan portfolio over the past twelve months as well as lower recoveries in 2015 compared to 2014. We continue to reduce our exposure in our higher-risk businesses, including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers, or net loan charge-offs.

Asset quality on our oil and gas loan portfolio, which represents approximately 2% of total loans at December 31, 2015, performed in-line with our expectations in 2015. Nonperforming loans in this sector increased to .54% of our total oil and gas loan portfolio at December 31, 2015, up from .09% at December 31, 2014. In 2015, net loan charge-offs in this sector were ..81% of our total oil and gas loan portfolio as a result of commodity price declines that began in 2014. Our reserve for credit losses allocated to our oil and gas loan exposure was 6% of the total oil and gas loan portfolio at December 31, 2015, and reflected the estimated impact of current oil prices at that date.

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Net loan charge-offs

Net loan charge-offs for 2015 totaled $142 million, or .24% of average loans, compared to net loan charge-offs of $113 million, or .20%, for the same period last year. Figure 39 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 40.

Over the past 12 months, net loan charge-offs increased $29 million. This increase is attributable to the growth in our loan portfolio and lower levels of recoveries over the same period. As shown in Figure 42, our exit loan portfolio contributed a total of $10 million in net loan charge-offs for 2015, compared to $13 million in net loan charge-offs for 2014. The decrease in net loan charge-offs in our exit loan portfolio was primarily driven by lower levels of net loan charge-offs in our consumer and commercial exit loan portfolios.

Figure 39. Net Loan Charge-offs from Continuing Operations [a]

Year ended December 31, *dollars in millions*	**2015**	2014	2013	2012	2011
Commercial, financial and agricultural	**$ 61**	$ 12	$ 23	$ 17	$ 119
Real estate commercial mortgage	**(2)**	2	(7)	79	103
Real estate construction		(12)	(11)	19	56
Commercial lease financing	**4**		12	5	17
Total commercial loans	**63**	2	17	120	295
Home equity Key Community Bank	**19**	28	52	88	89
Home equity Other	**2**	4	14	30	41
Credit cards	**28**	33	27	11	
Marine	**9**	14	14	37	48
Other	**21**	32	44	59	68
Total consumer loans	**79**	111	151	225	246
Total net loan charge-offs	**$ 142**	$ 113	$ 168	$ 345	$ 541
Net loan charge-offs to average loans	**.24 %**	.20 %	.32 %	.69 %	1.11 %
Net loan charge-offs from discontinued operations education lending business	**$ 22**	$ 31	$ 37	$ 58	$ 123

(a) Credit amounts indicate that recoveries exceeded charge-offs.

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Figure 40. Summary of Loan and Lease Loss Experience from Continuing Operations

Year ended December 31,

dollars in millions	**2015**	**2014**	**2013**	**2012**	**2011**
Average loans outstanding	**$ 58,594**	$ 55,679	$ 53,054	$ 50,362	$ 48,606
Allowance for loan and lease losses at beginning of period	**$ 794**	$ 848	$ 888	$ 1,004	$ 1,604
Loans charged off:					
Commercial, financial and agricultural [(a)]	**77**	45	62	80	169
Real estate commercial mortgage	**4**	6	20	102	113
Real estate construction	**1**	5	3	24	83
Total commercial real estate loans [(b)]	**5**	11	23	126	196
Commercial lease financing	**11**	10	27	27	42
Total commercial loans	**93**	66	112	233	407
Real estate residential mortgage	**6**	10	20	27	29
Home equity:					
Key Community Bank	**26**	37	62	99	100
Other	**6**	9	20	35	45
Total home equity loans	**32**	46	82	134	145
Consumer other Key Community Bank	**24**	30	31	38	45
Credit cards	**30**	34	30	11	
Consumer other:					
Marine	**17**	23	29	59	80
Other	**1**	2	4	6	9
Total consumer other	**18**	25	33	65	89
Total consumer loans	**110**	145	196	275	308
Total loans charged off	**203**	211	308	508	715
Recoveries:					
Commercial, financial and agricultural [(a)]	**16**	33	39	63	50
Real estate commercial mortgage	**6**	4	27	23	10
Real estate construction	**1**	17	14	5	27
Total commercial real estate loans [(b)]	**7**	21	41	28	37
Commercial lease financing	**7**	10	15	22	25
Total commercial loans	**30**	64	95	113	112

Real estate residential mortgage	**3**	2	2	3	3
Home equity:					
Key Community Bank	**7**	9	10	11	11
Other	**4**	5	6	5	4
Total home equity loans	**11**	14	16	16	15
Consumer other Key Community Bank	**6**	6	7	6	8
Credit cards	**2**	1	3		
Consumer other:					
Marine	**8**	9	15	22	32
Other	**1**	2	2	3	4
Total consumer other	**9**	11	17	25	36
Total consumer loans	**31**	34			