KEYCORP /NEW/
Form 10-K
February 26, 2018
Table of Contents

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, 2017
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
Depositary Shares (each representing a 1/40th interest in a share of Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series E)	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 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
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 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
The aggregate market value of voting stock held by nonaffiliates of the Registrant was $20,477,922,563 (based on the June 30, 2017, closing price of KeyCorp Common Shares of $18.74 as reported on the New York Stock Exchange).
As of February 20, 2018, there were 1,060,687,384 Common Shares outstanding.
Certain specifically designated portions of KeyCorp's definitive Proxy Statement for its 2018 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

1

Table of Contents

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 stateme 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 and industrial loans;
- the extensive regulation of the U.S. financial services industry;
- changes in accounting policies, standards, and interpretations;
- operational or risk management failures by us or critical third parties;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- negative outcomes from claims or litigation;
- failure or circumvention of our controls and procedures;
- the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;
- evolving capital and liquidity standards under applicable regulatory rules;
- disruption of the U.S. financial system;
- our ability to receive dividends from our subsidiary, KeyBank;
- unanticipated changes in our liquidity position, including but not limited to, changes in our access to or the cost of funding and our ability to secure alternative funding sources;
- 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;
- tax reform and other changes in tax laws, including the impact of the TCJ Act;
- 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;
- our ability to adapt our products and services to industry standards and consumer preferences;
- unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses;
- our ability to realize the anticipated benefits of the First Niagara 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.

Table of Contents

KEYCORP
2017 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

Item Number		Page Number
	PART I	
1	Business	4
1A	Risk Factors	20
1B	Unresolved Staff Comments	29
2	Properties	30
3	Legal Proceedings	30
4	Mine Safety Disclosures	30
	PART II	
5	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
6	Selected Financial Data	31
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
7A	Quantitative and Qualitative Disclosures About Market Risk	90
8	Financial Statements and Supplementary Data	91
	Management's Annual Report on Internal Control over Financial Reporting	92
	Reports of Independent Registered Public Accounting Firm	93
	Consolidated Financial Statements and Related Notes	95
	Consolidated Balance Sheets	95
	Consolidated Statements of Income	96
	Consolidated Statements of Comprehensive Income	97
	Consolidated Statements of Changes in Equity	98
	Consolidated Statements of Cash Flows	99
	Notes to Consolidated Financial Statements	100
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	189
9A	Controls and Procedures	189
9B	Other Information	190
	PART III	
10	Directors, Executive Officers and Corporate Governance	190
11	Executive Compensation	190
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	190
13	Certain Relationships and Related Transactions, and Director Independence	190
14	Principal Accountant Fees and Services	191
	PART IV	
15	Exhibits and Financial Statement Schedules	192
	(a) (1) Financial Statements — See listing in Item 8 above	192
	(a) (2) Financial Statement Schedules — None required	192
	(a) (3) Exhibits	192
16	Form 10-K Summary	194
	Signatures	195

Exhibits

3

Table of Contents

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 $137.7 billion at December 31, 2017. 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, 2017, these services were provided across the country through KeyBank's 1,197 full-service retail banking branches and a network of 1,572 ATMs in 15 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 25 ("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 18,415 full-time equivalent employees for 2017.

In addition to the customary banking services of accepting deposits and making loans, our bank and its trust company subsidiary offer personal and institutional trust custody services, securities lending, personal financial and planning services, access to mutual funds, treasury services, personal property and casualty insurance, 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. Key Community Bank also purchases retail auto sales contracts via a network of auto dealerships. The auto dealerships finance the sale of automobiles as the initial lender and then assign the contracts to us pursuant to dealer agreements.

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, investment banking and capital markets products, and brokerage. We also provide merchant services to businesses.

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.

We derive the majority of our revenues within the United States from customers domiciled in the United States. Revenue from foreign countries and external customers domiciled in foreign countries was immaterial to our consolidated financial statements.

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 7. "Terminology" 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.

Table of Contents

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 and investment, lending, mortgage and home equity, credit card, and personalized wealth management products and business advisory services. Key Community Bank offers personal property and casualty insurance, such as home, auto, renters, watercraft, and umbrella policies. Key Community Bank also purchases retail auto sales contracts via a network of auto dealerships. These products and services are provided through our relationship managers and specialists working in our 15-state branch network, which is organized into ten internally defined geographic regions: Washington, Oregon/Alaska, Rocky Mountains, Indiana/Northwest Ohio/Michigan, Central/Southwest Ohio, East Ohio/Western Pennsylvania, Atlantic, 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.

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 25 (“Line of Business Results”).

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:

Description of Financial Data	Page Number
Selected Financial Data	35
Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations	42
Components of Net Interest Income Changes from Continuing Operations	44
Composition of Loans	54
Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates	59
Securities Available for Sale	61
Held-to-Maturity Securities	61
Maturity Distribution of Time Deposits of $100,000 or More	62
Allocation of the Allowance for Loan and Lease Losses	78
Summary of Loan and Lease Loss Experience from Continuing Operations	80
Summary of Nonperforming Assets and Past Due Loans from Continuing Operations	81
Summary of Changes in Nonperforming Loans from Continuing Operations	81
Short-Term Borrowings	173

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.

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. Mergers and acquisitions have also led to increased concentration in the banking industry, placing added competitive pressure on Key's core banking products and services as we see competitors enter some of our markets or offer similar products. 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.

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, 2017, the positions held by each at KeyCorp during the past five years, and the year each first became an executive officer of KeyCorp. On January 23, 2018, William Hartmann retired and Mark Midkiff replaced him as KeyCorp's Chief Risk Officer. Because Messrs. Buffie, Kimble, and Midkiff 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 (51) - Ms. Brady is KeyCorp's Chief Information Officer, serving in that role since May 2012. Ms. Brady has been an executive officer of KeyCorp since she joined in 2012.

Craig A. Buffie (57) - Mr. Buffie served as KeyCorp's Chief Human Resources Officer from February 2013 until March 2016, when he stepped out of the Chief Human Resources Officer position to focus on the integration efforts related to the First Niagara merger. He resumed his role as Chief Human Resources Officer and an executive officer of KeyCorp in January 2017. 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.

Table of Contents

Edward J. Burke (61) - 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 of KeyBank and head of KeyBank Real Estate Capital and Key Community Development Lending.

Robert A. DeAngelis (56) - Mr. DeAngelis has been the Director of Quality and Productivity Management since June 2017. From March 2016 to June 2017, he served as Transition Program Executive and was dedicated to the integration efforts related to KeyCorp's merger with First Niagara. From November 2011 to March 2016, Mr. DeAngelis was the Director of the Enterprise Program Management Office for KeyCorp. Prior to that, he served as the Consumer Segment Executive. Mr. DeAngelis has been an executive officer of KeyCorp since June 2017 and was also previously an executive officer of KeyCorp from March 2013 to March 2016.

Dennis A. Devine (46) - 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 of KeyBank 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.

Trina M. Evans (53) - 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.

Christopher M. Gorman (57) - In 2017, Mr. Gorman became President of Banking and Vice Chairman of KeyCorp. From 2016 to 2017, he served as Merger Integration Executive responsible for leading the integration efforts related to KeyCorp's merger with First Niagara. Prior to that, Mr. Gorman was the President of Key Corporate Bank from 2010 to 2016. 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 Inc. (2003 to 2010). He became an executive officer of KeyCorp in 2010.

Paul N. Harris (59) - Mr. Harris has been the General Counsel and Secretary of KeyCorp since 2003 and an executive officer of KeyCorp since 2004.

William L. Hartmann (64) - 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 became an executive officer of KeyCorp in 2012. On January 23, 2018, Mr. Hartmann retired from his position as Chief Risk Officer and as an executive officer of KeyCorp.

Donald R. Kimble (57) - Mr. Kimble has been the Chief Financial Officer of KeyCorp since June 2013. In 2017, Mr. Kimble was also named Vice Chairman of KeyCorp. 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.

Angela G. Mago (52) - Ms. Mago became Co-Head of Key Corporate Bank in 2016. She also serves as Head of Real Estate Capital for Key, a role she has held since 2014. From 2011 to 2014, Ms. Mago was Head of Key's Commercial Mortgage Group. She became an executive officer of KeyCorp in 2016.

Mark W. Midkiff (56) - Mr. Midkiff became Chief Risk Officer of KeyCorp and an executive officer of KeyCorp in January 2018. Prior to joining KeyCorp, he served as the Deputy Chief Credit Officer of BB&T. He also previously served as Chief Risk Officer of MUFG Union Bank and later as Chief Risk Officer of GE Capital.

Beth E. Mooney (62) - 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. She has been a director of AT&T, a publicly-traded telecommunications company, since 2013.

Table of Contents

Andrew J. Paine III (48) - Mr. Paine became Co-Head of Key Corporate Bank in 2016. He also serves as President of KeyBanc Capital Markets Inc., a role he has held since 2013. From 2010 to 2013, Mr. Paine was the Co-Head of KeyBanc Capital Markets Inc. He became an executive officer of KeyCorp in 2016.

Kevin T. Ryan (56) - Mr. Ryan has been the Chief Risk Review Officer and General Auditor of KeyCorp since 2007. He became an executive officer of KeyCorp in 2016.

Douglas M. Schosser (47) - 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 consumers, the DIF, 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 any such changes may materially affect our business, financial condition, results of operations, or access to liquidity or credit.

Overview

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 or functional regulators: (i) the OCC for national banks and federal savings associations; (ii) the FDIC for state non-member banks and savings associations; (iii) the Federal Reserve for state member banks; (iv) the CFPB for consumer financial products or services; (v) the SEC and FINRA for securities broker/dealer activities; (vi) the SEC, CFTC, and NFA for swaps and other derivatives; and (vii) 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.

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 from the Federal Reserve. In addition, BHCs are generally prohibited from engaging in commercial or industrial activities. However, a BHC that satisfies certain requirements regarding management, capital adequacy, and Community Reinvestment Act performance may elect to be treated as a Financial Holding Company (“FHC”) for purposes of federal law, and as a result may engage in a substantially broader scope of activities that are considered to be financial in nature or complementary to those activities. KeyCorp has elected to be treated as a FHC and, as such, is authorized to engage in securities underwriting and dealing, insurance agency and underwriting, and merchant banking activities. In addition, the Federal Reserve has permitted FHCs, like KeyCorp, to engage in the following activities, under the view that they are complementary to a financial activity: physical commodities trading activities, energy management services, and energy tolling, among others.

Under federal law, a BHC also must serve as a source of financial strength to its subsidiary depository institution(s) by providing financial assistance in the event of financial distress. This support may be required when the BHC does 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.

The Dodd-Frank Act created the FSOC to overlay the U.S. supervisory framework for BHCs, insured depository institutions, and other financial service providers, by serving as a systemic risk oversight body. Specifically, the FSOC is authorized 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

Table of Contents

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.

As an FHC, KeyCorp is subject to regulation, supervision, and examination by the Federal Reserve under the BHCA. Our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the OCC. At December 31, 2017, 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, more limited 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 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.

Regulatory capital requirements

Background

KeyCorp and KeyBank are subject to regulatory capital requirements that are based largely on the work of an international group of supervisors known as the Basel Committee on Banking Supervision (“Basel Committee”). The Basel Committee is responsible for establishing international bank supervisory standards for implementation in member jurisdictions, to enhance and align bank regulation on a global scale and promote financial stability.

The regulatory capital framework developed by the Basel Committee and implemented in the United States is a predominately risk-based capital framework that establishes minimum capital requirements based on the amount of regulatory capital a banking organization maintains relative to the amount of its total assets, adjusted to reflect credit risk (“risk-weighted assets”). Each banking organization subject to this regulatory capital framework is required to satisfy certain minimum risk-based capital measures (e.g., a tier 1 risk-based capital ratio requirement of tier 1 capital to total risk-weighted assets), and in the United States, a minimum leverage ratio requirement of tier 1 capital to average total on-balance sheet assets, which serves as a backstop to the risk-based measures.

A capital instrument is assigned to one of two tiers based on the relative strength and ability of that instrument to absorb credit losses on a going concern basis. Capital instruments with relatively robust loss-absorption capacity are assigned to tier 1, while other capital instruments with relatively less loss-absorption capacity are assigned to tier 2. A banking organization’s total capital equals the sum of its tier 1 and tier 2 capital.

The Basel Committee also developed a market risk capital framework (that also has been implemented in the United States) to address the substantial exposure to market risk faced by banking organizations with significant trading activity and augment the credit risk-based capital requirements described above. For example, the minimum total risk-based capital ratio requirement for a banking organization subject to the market risk capital rule equals the ratio of the banking organization’s total capital to the sum of its credit risk-weighted assets and market risk-weighted assets. Only KeyCorp is subject to the market risk capital rule, as KeyBank does not engage in substantial trading activity.

Basel III

To address deficiencies in the international regulatory capital standards identified during the 2007-2009 global financial crisis, in 2010 the Basel Committee released comprehensive revisions to the international regulatory capital framework, commonly referred to as “Basel III.” The Basel III revisions are designed to strengthen the quality and quantity of regulatory capital, in part through the introduction of a Common Equity Tier 1 capital requirement; provide more comprehensive and robust risk coverage, particularly for securitization exposures, equities, and off-balance sheet positions; and address pro-cyclicality concerns through the implementation of capital

Table of Contents

buffers. The Basel Committee also released a series of revisions to the market risk capital framework to address deficiencies identified during its initial implementation (e.g., arbitrage opportunities between the credit risk-based and market risk capital rules) and in connection with the global financial crisis.

In July 2013, the U.S. banking agencies adopted a final rule to implement Basel III with an effective date of January 1, 2015, and a multi-year transition period ending on December 31, 2018 ("Regulatory Capital Rules"). Consistent with the international framework, the Regulatory Capital Rules further restrict the type of instruments that may be recognized in tier 1 and tier 2 capital (including the phase out of trust preferred securities from tier 1 capital for BHCs above a certain asset threshold, like KeyCorp); establish a minimum Common Equity Tier 1 capital ratio requirement of 4.5% and capital buffers to absorb losses during periods of financial stress while allowing an institution to provide credit intermediation as it would during a normal economic environment; and refine several of the methodologies used for determining risk-weighted assets. The Regulatory Capital Rules provide additional requirements for large banking organizations with over $250 billion in total consolidated assets or $10 billion in foreign exposure, but those additional requirements do not apply to KeyCorp or KeyBank. Accordingly, for purposes of the Regulatory Capital Rules, KeyCorp and KeyBank are treated as "standardized approach" banking organizations.

Under the Regulatory Capital Rules, standardized approach banking organizations are required to meet the minimum capital and leverage ratios set forth in the following table. At December 31, 2017, Key had an estimated Common Equity Tier 1 Capital Ratio of 10.05% under the fully phased-in Regulatory Capital Rules. Also at December 31, 2017, 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, 2017 Pro Forma		Minimum January 1, 2015		Phase-in Period	Minimum January 1, 2019	
Common Equity Tier 1 [(a)]	10.05	%	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	10.90		6.0		None	6.0	
Tier 1 Capital + Capital conservation buffer			6.0		1/1/16 - 1/1/19	8.5	
Total Capital	12.83		8.0		None	8.0	
Total Capital + Capital conservation buffer			8.0		1/1/16 - 1/1/19	10.5	
Leverage [(c)]	9.68		4.0		None	4.0	

(a) See Figure 4 entitled "GAAP to Non-GAAP Reconciliations," which presents the computation of Common Equity Tier 1 under the fully-phased in regulatory capital rules.

(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 became effective January 1, 2018.

Revised prompt corrective action framework

The federal prompt corrective action framework established under the FDIA groups 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, with an effective date of January 1, 2015. The Revised Prompt Corrective Action Framework table below identifies the capital category threshold ratios for a “well capitalized” and an “adequately capitalized” institution under the Prompt Corrective Action Framework.

“Well Capitalized” and “Adequately Capitalized” Capital Category Ratios under
Revised Prompt Corrective Action Framework

Prompt Corrective Action	Capital Category	
Ratio	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 became effective January 1, 2018.

10

Table of Contents

We believe that, as of December 31, 2017, KeyBank (consolidated) satisfied the risk-based and leverage capital requirements necessary to be considered "well capitalized" for purposes of the revised prompt corrective action framework. However, investors should not regard this determination as a representation of the overall financial condition or prospects of KeyBank because the prompt corrective action framework is intended to serve a limited supervisory function. Moreover, it is important to note that the prompt corrective action framework does not apply to BHCs, like KeyCorp.

Recent regulatory capital-related developments

On September 27, 2017, the federal banking agencies issued a joint proposal to simplify certain aspects of the Regulatory Capital Rules for standardized approach banking organizations (the "Simplification Proposal"), including Key. In anticipation of the Simplification Proposal, on August 22, 2017, the agencies issued a proposal to extend the current capital treatment for certain items that are part of the Simplification Proposal and also subject to the multi-year transition period for the Regulatory Capital Rules, which ends on December 31, 2018 (the "Transitions Proposal"). The Transitions Proposal was published as a final rule in the Federal Register on November 21, 2017, and is expected to alleviate the burden that would have resulted from the continued phase-in of those capital requirements as the agencies seek public comment on and work to finalize the Simplification Proposal.

The Simplification Proposal would amend the Regulatory Capital Rules by: (1) replacing the definition for "high volatility commercial real estate" exposures with a simpler definition called, "high volatility acquisition, development, or construction" ("HVADC") exposures, and requiring a banking organization to assign a 130 percent risk weight to HVADC exposures; (2) simplifying the thresholds deductions for mortgage servicing assets, temporary difference deferred tax assets that are not realizable through carryback, and investments in the capital of unconsolidated financial institutions, together with revisions to the risk-weight treatment for investments in the capital of unconsolidated financial institutions; and (3) simplifying the limitations on the amount of a third-party minority interest in a consolidated subsidiary that is includable in regulatory capital. These revisions would apply only to standardized approach banking organizations.

The Simplification Proposal also sets forth clarifying revisions to miscellaneous sections of the Regulatory Capital Rules. If the Simplification Proposal is adopted in its current form as final, it would likely have a neutral-to-low impact on Key's capital requirements, but it would meaningfully alleviate the compliance burden associated with the Regulatory Capital Rules. Comments on the Simplification Proposal were due December 26, 2017.

In December 2017, the Basel Committee released its final revisions to Basel III. The revisions seek to restore credibility in the calculation of risk-weighted assets ("RWAs") and improve the comparability of regulatory capital ratios across banking organizations by: (1) enhancing the robustness and risk-sensitivity of the standardized approach for credit risk, credit valuation adjustment, and operational risk; (2) constraining the use of internal models by placing limits on certain inputs used to calculate capital requirements under the internal ratings-based approach for credit risk (used by advanced approaches banking organizations) and removing the ability to use an internal model for purposes of determining the capital charge for credit valuation adjustment ("CVA") risk and operational risk; (3) introducing a leverage ratio buffer to further limit the leverage of global systemically-important banks; and (4) replacing the existing Basel II output floor with a more robust, risk-sensitive floor based on the Basel III standardized approach.

The U.S. federal banking agencies released a statement announcing their support for the Basel Committee's efforts, but cautioned that they will consider how to appropriately incorporate these revisions into the Regulatory Capital Rules, and that any proposed changes based on the Basel Committee revisions would be subject to notice-and-comment rulemaking. In view of the prohibition under the Dodd-Frank Act on the use of credit ratings in federal regulation, there is some uncertainty as to whether or how the agencies would implement the ratings-based aspects of the Basel Committee revisions to Basel III, as well as any other aspect of the Basel Committee revisions that permit the U.S.

agencies to exercise home-country discretion, for example, due to differences in accounting or market practices, and legal requirements.

Table of Contents

Liquidity requirements

KeyCorp is subject to regulatory liquidity requirements based on international liquidity standards established by the Basel Committee in 2010, and subsequently revised between 2013 and 2014 (as revised, the “Basel III liquidity framework”). The Basel III liquidity framework establishes quantitative standards designed to ensure that a banking organization is appropriately positioned, from a balance sheet perspective, to satisfy its short- and long-term funding needs.

To address short-term liquidity risk, the Basel III liquidity framework established a liquidity coverage ratio (“Basel III LCR”), calculated as the ratio of a banking organization’s high-quality liquid assets to its total net cash outflows over 30 consecutive calendar days. In addition, to address long-term liquidity risk, the Basel III liquidity framework established a net stable funding ratio (“Basel III NSFR”), calculated as the ratio of the amount of stable funding available to a banking organization to its required amount of stable funding. Banking organizations must satisfy minimum Basel III LCR and NSFR requirements of at least 100%.

In October 2014, the federal banking agencies published a final rule to implement the Basel III LCR for U.S. banking organizations (the “Liquidity Coverage Rules”). Consistent with the Basel III LCR, the U.S. Liquidity Coverage Rules establish 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.

Under the Liquidity Coverage Rules, KeyCorp must calculate a Modified LCR on a monthly basis, and is required to satisfy a minimum Modified LCR requirement of 100%. At December 31, 2017, KeyCorp’s Modified LCR was above 100%. In the future, KeyCorp 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.

In December 2016, the Federal Reserve adopted a final rule to implement public disclosure requirements for the LCR and Modified LCR. Under the final rule, each calendar quarter KeyCorp must publicly disclose certain quantitative information regarding its Modified LCR calculation, together with a discussion of the factors that have a significant effect on its Modified LCR. That discussion may include the main drivers of the Modified LCR; changes in the Modified LCR over time and the cause(s) of such changes; the composition of eligible high-quality liquid assets; concentration of funding sources; derivative exposures and potential capital calls; any currency mismatch; and the centralized liquidity management function of the organization and its interaction with other functional areas. KeyCorp must comply with these disclosure requirements for the calendar quarter beginning October 1, 2018, and subsequent quarters.

The federal banking agencies commenced implementation of the Basel III NSFR in the United States in April and May 2016, with the release of a proposed rule to implement a minimum net stable funding ratio (“NSFR”) requirement for certain internationally active banking organizations (excluding KeyCorp) and a modified version of the minimum NSFR requirement (“Modified NSFR”) for BHCs and other depository institution holding companies with over $50 billion in consolidated assets that are not internationally active (including KeyCorp), together with quarterly public disclosure requirements. The proposed rule would require banking organizations to satisfy a minimum NSFR requirement of 1.0 on an ongoing basis. However, banking organizations subject to the Modified NSFR (like KeyCorp) would be required to maintain a lower minimum amount of available stable funding, equal to 70% of the required stable funding under the NSFR. The comment period for the NPR expired on August 5, 2016. If the proposed NSFR requirement is adopted as a final rule, then similar to actions taken in connection with the implementation of the Liquidity Coverage Rules, KeyCorp may adjust its balance sheet or modify product offerings to enhance its liquidity position.

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 (described below). The supervisory review includes an assessment of

many factors, including KeyCorp'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, as set forth in a Federal Reserve guidance document 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 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 and maintain regulatory capital in an amount that is sufficient to withstand a severely adverse operating environment and, at the same time, be able to continue operations, maintain ready access to funding, meet obligations to creditors and counterparties, and provide credit intermediation.

As part of the annual CCAR, the Federal Reserve conducts an annual supervisory stress test on KeyCorp, pursuant to which 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. KeyCorp filed its 2017 CCAR capital plan on April 5, 2017. The 2017 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 on June 28, 2017. That same day, the Federal Reserve announced that it did not object to our 2017 capital plan.

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 June 22, 2017. KeyCorp published the results of its company-run mid-cycle stress test on October 26, 2017. Summaries of the results of these company-run stress tests are disclosed each year under the "Regulatory Disclosures and Filings" tab of Key's Investor Relations website: http://www.key.com/ir.

Recent developments in capital planning and stress testing

On January 30, 2017, the Federal Reserve released a final rule to revise the capital plan and stress test rules as they apply to large, noncomplex BHCs and U.S. intermediaries of foreign banks. Under the final rule, a large noncomplex BHC is one with total consolidated assets of more than $50 billion but less than $250 billion, and nonbank assets of less than $75 billion ("covered BHCs"). This includes KeyCorp.

The final rule provides relief from the compliance requirements associated with the Federal Reserve's capital plan and stress test rules. Specifically, the final rule relieves covered BHCs from the qualitative assessment portion of the Federal Reserve's CCAR program and modifies the reporting requirements for these organizations by reducing the reporting requirements applicable to covered BHCs under the FR Y-14A and raising the materiality thresholds for specific portfolio reporting requirements. Going forward, the Federal Reserve will assess the capital planning practices of covered BHCs in a manner similar to existing supervisory programs, which typically include the distribution of a first day letter in advance of the start date of the review, standard communication during the exam, lead time to meet requests for additional information, and sufficient time frames to address the findings of the review. The final rule also limits the amount of capital a covered BHC is authorized to distribute in excess of the amount set forth in its capital plan without Federal Reserve approval (the "de minimis exception"), and establishes a one-quarter blackout period during which a BHC is not permitted to submit a notice to use the de minimis exception or seek prior

approval to make a capital distribution in an amount that exceeds the de minimis exception level. If exigent circumstances arise during the blackout period that require a capital distribution, a covered BHC may

13

Table of Contents

resubmit its capital plan and request expedited review from the Federal Reserve; however, the Federal Reserve is not required to expedite the review process.
The final rule also requires covered BHCs to measure nonbank assets on a monthly basis and report the average throughout the quarter to the Federal Reserve on a quarterly basis beginning March 31, 2017.
The final rule became effective 30 days after publication in the Federal Register, and therefore, the relief provided under the final rule from the qualitative assessment portion of the CCAR program was effective for the 2017 CCAR cycle.
On December 7, 2017, the Federal Reserve released for public comment a package of proposals that would increase the transparency of its stress test program while maintaining the Federal Reserve's ability to test the resilience of the nation's largest, most complex banks. The proposals responded to public and industry calls for more transparency around the CCAR program.
One of the proposals, titled "Enhanced Disclosure of the Models Used in the Federal Reserve's Supervisory Stress Tests," sets forth a process for the release of more information regarding the models used by the Federal Reserve to estimate hypothetical losses in stress tests, including as applied in the CCAR context. For the first time, this would make the following information available to the public: (1) a range of loss rates, estimated using Federal Reserve models, for loans held by CCAR firms; (2) portfolios of hypothetical loans with loss rates estimated by Federal Reserve models; and (3) more detailed descriptions of the Federal Reserve's models, such as certain equations and key variables that influence the results of those models.
The Federal Reserve was also seeking comment on a proposed Stress Testing Policy Statement. The Policy Statement describes the principles, policies, and procedures that guide the development, implementation and validation of the Federal Reserve's supervisory stress test models, and would complement the Federal Reserve's Policy Statement on Scenario Design (discussed below).
Finally, the Federal Reserve is proposing to amend its Policy Statement on the Scenario Design Framework for Stress Testing. The proposed amendments would (1) clarify when the Federal Reserve may adopt a change in the unemployment rate in the severely adverse scenario of less than four percentage points; (2) institute a counter-cyclical guide for the change in the house price index in the severely adverse scenario; (3) and provide notice that the Federal Reserve plans to incorporate wholesale funding costs for banking organizations in the scenarios. The Federal Reserve would continue to use the Policy Statement to develop the macroeconomic scenarios and additional scenario components that are used in the supervisory and company-run stress tests conducted under the Federal Reserve's stress tests rules. Comments on these proposals were due January 22, 2018.
Dividend restrictions
Federal law and regulation 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 less than "adequately capitalized" under the prompt corrective action framework or if the institution is in default in the payment of an assessment due to the FDIC. Similarly, under the Regulatory Capital Rules, a banking organization that fails to satisfy the minimum capital conservation buffer requirement will be subject to certain limitations, which include restrictions on capital distributions. For more information about the payment of dividends by KeyBank to KeyCorp, please see Note 4 ("Restrictions on Cash, Dividends, and Lending Activities") in this report.

Table of Contents

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.

As required under the Dodd-Frank Act, in March 2015, the FDIC approved a final rule to impose a surcharge on the quarterly deposit insurance assessments of insured depository institutions having total consolidated assets of at least $10 billion (like KeyBank). The surcharge is 4.5 cents per $100 of the institution's assessment base (after making certain adjustments). The final rule became effective on July 1, 2016. As of July 1, 2016, KeyBank must pay a surcharge to assist in bringing the reserve ratio to the statutory minimum of 1.35%. Surcharges will continue through the quarter that the DIF reserve ratio reaches or exceeds 1.35%, but not later than December 31, 2018. If the reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC will impose a shortfall assessment on March 31, 2019, on insured depository institutions with total consolidated assets of $10 billion or more (like KeyBank).

In December 2016, the FDIC issued a final rule that imposes recordkeeping requirements on insured depository institutions with two million or more deposit accounts (including KeyBank), to facilitate rapid payment of insured deposits to customers if such an institution were to fail. The rule requires those insured depository institutions to: (i) maintain complete and accurate data on each depositor's ownership interest by right and capacity for all of the institution's deposit accounts; and (ii) develop the capability to calculate the insured and uninsured amounts for each deposit owner within 24 hours of failure. The FDIC will conduct periodic testing of compliance with these requirements, and institutions subject to the rule must submit to the FDIC a certification of compliance, signed by the KeyBank CEO, and deposit insurance coverage summary report on or before the mandatory compliance date and annually thereafter. The final rule became effective on April 1, 2017, with a mandatory compliance date of April 1, 2020.

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.

Table of Contents

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 down 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 and recovery 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, usually by December 31 of each year. For 2015, these resolution plans, the third required from KeyCorp and KeyBank, were submitted on December 1, 2015. KeyCorp and KeyBank were not required to submit resolution plans for 2016 because the FDIC and Federal Reserve deferred such requirement (for 38 firms, including KeyCorp) until December 2017 and the FDIC deferred such requirement (for a number of insured depository institutions, including KeyBank) until July 1, 2018. The Federal Reserve and FDIC make available on their websites the public sections of resolution plans for the companies, including KeyCorp and KeyBank, after they are submitted. 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/.

On September 28, 2016, the OCC released final guidelines that establish standards for recovery planning by certain large OCC-regulated institutions, including KeyBank. The guidelines require such institutions to establish a

---

Table of Contents

comprehensive framework for evaluating the financial effects of severe stress events, and recovery actions an institution may pursue to remain a viable, going concern during a period of severe financial stress. Under the final guidelines, an institution's recovery plan must include triggers to alert the institution of severe stress events, escalation procedures, recovery options, and a process for periodic review and approval by senior management and the board of directors. The recovery plan should be tailored to the complexity, scope of operations, and risk profile of the institution. Because KeyBank had average total consolidated assets of greater than $100 billion but less than $750 billion as reported on KeyBank's Consolidated Reports of Condition and Income for the four most recent consecutive quarters as of January 1, 2017, it was required to be in compliance with the guidelines no later than January 1, 2018. We believe that KeyBank is in compliance with the guidelines.

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.

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, which 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 financial instruments, including 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. A banking entity may also engage in risk-mitigating hedging activity if it 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, the Federal Reserve exercised its unilateral authority to extend the compliance deadline until July 21, 2017, with respect to covered funds. In addition, on December 12, 2016, the Federal Reserve released additional guidelines regarding how banking entities may seek an extension of the conformance period for certain legacy covered fund investments. Under the Dodd-Frank Act, the Federal Reserve is authorized to provide a banking entity up to an additional five years to conform legacy investments (i.e., contractual commitments of a banking organization on or before May 1, 2010, to make an investment) in "illiquid" covered funds.

Table of Contents

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. On January 13, 2017, Key filed for an additional extension for illiquid funds, to retain certain indirect investments until the earlier of the date on which the investment is conformed or is expected to mature or July 21, 2022. The application for an extension was approved on February 14, 2017. As of December 31, 2017, we have not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology.

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 resolution plan requirements applicable to KeyCorp were implemented by a joint final rule adopted by the Federal Reserve and FDIC in 2011. That same year, the Federal Reserve issued a proposal to implement the stress test, early remediation, and SCCL requirements. However, when that proposal was adopted as a final rule in 2012, it included only the stress test requirements and not the SCCL or early remediation requirements.

In March 2014, the Federal Reserve published a final rule to implement certain of the enhanced prudential standards required under the Dodd-Frank Act, including: (1) the incorporation of the Regulatory Capital Rules through the Federal Reserve's previously finalized rules on capital planning and stress tests; (2) 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; (3) 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 (4) 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.

In March 2016, the Federal Reserve issued an NPR proposing to establish a minimum SCCL for BHCs with total consolidated assets of $50 billion or more, like KeyCorp. This proposal would implement a provision in the Dodd-Frank Act and replaces proposals on this subject issued by the Federal Reserve in 2011 and 2012. Under the proposal, a covered BHC (including KeyCorp) would not be allowed to have an aggregate net credit exposure to any unaffiliated counterparty that exceeds 25% of the consolidated capital stock and surplus of the covered BHC. Global systemically-important banks and certain other large BHCs (excluding KeyCorp) would be subject to stricter limits under the proposal. A covered BHC such as KeyCorp would be required to comply with the proposed limits and quarterly reporting to show such compliance starting two years after the effective date of a final rule. The comment period for the NPR expired on June 3, 2016. KeyCorp does not expect to be materially impacted by this proposal if it is adopted as a final rule. The Federal Reserve has taken no further action on the early remediation requirements proposed in 2011.

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 significantly restrict the ability of KeyBank to fund its affiliates, including

---

Table of Contents

KeyCorp, KBCM, 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: (1) the definition of affiliate to include any investment fund having any bank or BHC-affiliated company as an investment adviser; (2) 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 (3) 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.

Supervision and governance

On August 3, 2017, the Federal Reserve published an NPR to align its supervisory rating system for large financial institutions, including KeyCorp, with the post-crisis supervisory programs for these firms (the "LFI Rating System"). If adopted in final form, the LFI Rating System would provide a supervisory evaluation of whether an institution possesses sufficient operational strength and resilience to maintain safe and sound operations through a range of conditions, and assess an institution's capital planning and positions, liquidity risk management and positions, and governance and controls. Institutions subject to the LFI Rating System would be rated using the following scale: Satisfactory, Satisfactory Watch, Deficient-1, and Deficient-2, with the Satisfactory Watch rating intended to be used as a transitory rating to allow an institution time to remediate a concern identified during the supervisory evaluation.

The governance and controls component of the LFI Rating System is the subject of two separate, but related proposals: (1) proposed guidance regarding supervisory expectations for boards of directors of large financial institutions; and (2) proposed guidance regarding core principles for effective senior management, business management, and independent risk management and controls for large financial institutions. The proposed guidance regarding supervisory expectations for boards of directors identifies the attributes of effective boards of directors that would be used by an examiner to evaluate an institution's governance and controls. The proposal also clarifies that for all institutions supervised by the Federal Reserve, most supervisory findings should be communicated to the organization's senior management for corrective action and not its board of directors. In addition, the proposal identifies existing supervisory expectations for boards of directors set forth in Federal Reserve SR Letters that could be eliminated or revised. The Federal Reserve extended the comment period for the proposed LFI Rating System and the guidance regarding supervisory expectations for boards of directors until February 15, 2018.

On January 4, 2018, the Federal Reserve released the final component of the proposed LFI Rating System — the proposed guidance regarding core principles for effective senior management, business management, and independent risk management and controls for large financial institutions. This guidance would support the supervisory evaluation under the governance and controls component of the LFI Rating System, together with the above-mentioned guidance regarding the effectiveness of a firm's board of directors. In general, the guidance proposes core principles for effective senior management, business line management, and the independent risk management and control function. The guidance encourages firms to establish a governance structure with appropriate levels of independence and stature, by appointing a Chief Risk Officer and a Chief Audit Officer. Finally, the guidance emphasizes the importance of independent risk management, internal controls, and internal audit, and establishes principles that firms should use to establish or augment those management and control frameworks. Comments on this proposal are due by March 15, 2018.

ERISA fiduciary standard

In April 2016, the Department of Labor published final rules and amendments to certain prohibited transaction exemptions regarding which service providers would be regarded as fiduciaries under ERISA for making investment advice recommendations to: (i) certain retirement plan fiduciaries, participants or beneficiaries, and (ii) owners or beneficiaries of individual retirement accounts and health savings accounts, among other retirement plans. The

purpose of the rules is to place fiduciary obligations, rather than the lesser legal obligations that currently apply, on these service providers. Accordingly, the rules subject any financial institution making recommendations for either the purchase or sale of investments in or rollover of the respective retirement plan to certain fiduciary obligations

Table of Contents

under ERISA, such as an impartial conduct standard and not selling certain investment products whose compensation may raise a conflict of interest for the advisor without entering into a contract providing certain disclosures and legal remedies to the customer. Under the Department of Labor's original rules, the impartial standard requirement for financial institutions and their advisors was to become effective April 10, 2017. However, in response to a Presidential Order, the Department of Labor extended the effective date to June 9, 2017. The contract provisions were to be in place by January 1, 2018. However, on November 29, 2017, the Department of Labor extended the applicability of the contract rules until July 1, 2019, while it continues to review requested comments concerning whether to modify, further delay, or rescind these rules in whole or in part.

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

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

As of December 31, 2017, approximately 73% of our loan portfolio consisted of commercial and industrial 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. The deterioration of a larger loan or a group of these loans could cause a significant increase in nonperforming loans, which could 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.

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 over the past several years, 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 to 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. Given the Dodd-Frank legislative mandate to centrally clear eligible derivative contracts, we rely on central clearing counterparties to remain open and operationally viable at all times. The possibility of a large member failure or a cybersecurity breach could result in a disruption in this market.

20

Table of Contents

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 current trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the softening 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 outpace the estimate in our current methodology used to establish our 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.

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, which caused the credit markets to constrain and also caused a widespread liquidation of assets. 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 certain 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 new recession would likely reverse recent positive trends in asset prices.

II. Compliance Risk

We are subject to extensive government regulation and supervision.

As a financial services institution, we are subject to extensive federal and state regulation and supervision, which previously 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.

KeyBank has faced 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, including its provisions 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 well as other significant regulations which have been enacted with upcoming effective dates. As a result, some uncertainty remains as to the aggregate impact upon Key of the Dodd-Frank Act and other significant regulations.

Changes to existing statutes, regulations or regulatory policies or their interpretation or implementation 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.

Table of Contents

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 periodically changes 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, internal controls, 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. Such a failure, interruption, or breach could result in legal liability, remediation costs, regulatory action, or reputational harm. 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, hold for ransom, or alter 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, 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.

22

Table of Contents

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, which could result in significant financial liability and/or reputational risk.
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

23

Table of Contents

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.

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

The Federal Reserve’s capital standards 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.

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

Further, the Federal Reserve requires BHCs 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 BHCs 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 requirements” 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 higher debt yields, a flatter or steeper slope to the yield curve, or unanticipated changes to quality spread premiums that may not follow historical relationships or patterns as the Federal Reserve gradually reverses quantitative easing and reduces the size of its balance sheet. 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.

Table of Contents

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 a reduced level 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 issued by 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. Changes in any of these factors could impact our ability to maintain our current credit ratings. 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. The prolonged low-interest rate environment, despite a generally improving economy, has presented a challenge for the industry, including Key, and affects business and financial 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 debt and 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;
- An increase in competition or 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.

Table of Contents

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. As the Federal Reserve continues to raise interest rates and begins to reverse quantitative easing, the behavior of national money market rate indices, the correlation of consumer deposit rates to financial market interest rates, and the setting of LIBOR rates may not follow historical relationships, which could influence net interest income and net interest margin.

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

We have concentrations of loans and other business activities in geographic regions where our bank branches are located — Washington; Oregon/Alaska; Rocky Mountains; Indiana/Northwest Ohio/Michigan; Central/Southwest Ohio; East Ohio/Western Pennsylvania; Atlantic; Western New York; Eastern New York; and New England — and additional exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery in the various regions where we operate has been uneven, 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 and healthcare 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.

Table of Contents

Tax reform is anticipated to have an impact on our tax liabilities, the tax liabilities of our clients, and how we do business.

On December 22, 2017, the TCJ Act was signed into law. This comprehensive tax legislation provides for significant changes to the U.S. Internal Revenue Code of 1986, as amended, that impact corporate taxation requirements, such as the reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The TCJ Act retains the low-income housing and research and development credits and repeals the corporate alternative minimum tax. Other relevant corporate changes include earlier recognition of certain revenue; accelerating expensing of investments in tangible property, including leasing assets; and limiting several deductions such as FDIC premiums, certain executive compensation, and meals and entertainment expense.

Key is currently assessing the overall impact of the TCJ Act on the future expected federal income tax obligations of both Key and our clients. We expect that Key's future federal income tax liabilities will overall benefit from the provisions in the TCJ Act. However, we also expect that certain aspects of our business may change over time; both as to the investments we may make as a result of tax reform and in response to how the provisions in the TCJ Act may affect our customers and influence how we offer and deliver our products and services in the future.

Refer to Note 14, Income Taxes, for information on the impact of the TCJ Act to our 2017 financial results.

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, failure to meet external commitments and goals, 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 is 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; embracing the changes required by our clients and the marketplace; and acquiring and expanding targeted client relationships. 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.

Table of Contents

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. We expect the competitive landscape of the financial services industry to become even more intense 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 keeping our assets safe and sound; our ability to attract, retain, and develop a highly competent employee workforce; and industry and general economic trends. Increased competition in the financial services industry, or 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 our regulators, who may identify deficiencies in the structure of or issue additional guidance on our compensation practices, causing us to make changes that may affect our ability to offer competitive compensation to these individuals or that place us at a disadvantage to non-financial service competitors. Our ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

Table of Contents

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

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 acquired company; diversion of our management's time and attention; significant integration risk with respect to employees, accounting systems, and technology platforms; increased regulatory scrutiny; and, the possible loss of key employees and customers of the acquired 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 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.

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

KeyCorp consummated its merger with First Niagara on August 1, 2016. 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.

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 incurred 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.

Table of Contents

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, 2017, Key leased approximately 477,744 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 563,458 square feet at December 31, 2017. Our office space is used by all of our segments. As of the same date, KeyBank owned 520 branches and leased 677 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

ITEM 3. LEGAL PROCEEDINGS

The information presented in the Legal Proceedings section of Note 22 (“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.

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”	63
Presentation of annual and quarterly market price and cash dividends per common share and discussion of dividends in the section captioned “Capital — Dividends”	31, 35, 63
Discussion of dividend restrictions in the sections captioned “Supervision and Regulation — Regulatory capital requirements — Dividend restrictions,” “Liquidity risk management — Liquidity for KeyCorp,” Note 4 (“Restrictions on Cash, Dividends, and Lending Activities”), and Note 24 (“Shareholders’ Equity”)	14, 75, 117, 182
KeyCorp common share price performance (2013-2017) graph	63, 64

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.

Table of Contents

As previously reported and as authorized by the Board and pursuant to our 2017 capital plan (which is effective through the second quarter of 2018) submitted to and not objected to by the Federal Reserve on June 28, 2017, we have authority to repurchase up to $800 million of our common shares, which includes repurchases to offset issuances of common shares under our employee compensation plans. During 2017, we repurchased $254 million of common shares under our 2016 capital plan authorization and $476 million under our 2017 capital plan authorization.

The following table summarizes our repurchases of our common shares for the three months ended December 31, 2017.

Calendar month	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 that may yet be purchased as part of publicly announced plans or programs[b]
October 1-31	4,482,143	$ 18.45	4,443,890	24,118,609
November 1-30	3,706,475	18.35	3,706,475	19,608,209
December 1-31	2,428,147	19.79	2,425,425	16,069,158
Total	10,616,765	$ 18.72	10,575,790	

(a) Includes common shares repurchased in the open market and common shares deemed surrendered by employees in connection with our stock compensation and benefit plans to satisfy tax obligations.

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares as follows: on October 31, 2017, at $18.25; on November 30, 2017, at $18.98; and on December 31, 2017, at $20.17.

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 35 is incorporated herein by reference.

Table of Contents

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

	Page Number
Introduction	33
Terminology	33
Selected financial data	35
Long-term financial targets	38
Corporate strategy	38
Strategic developments	39
Results of Operations	40
Net interest income	40
Provision for credit losses	44
Noninterest income	44
Noninterest expense	46
Income taxes	49
Line of Business Results	49
Key Community Bank summary of operations	50
Key Corporate Bank summary of operations	52
Other Segments	53
Financial Condition	54
Loans and loans held for sale	54
Securities	60
Other investments	62
Deposits and other sources of funds	62
Capital	62
Off-Balance Sheet Arrangements and Aggregate Contractual Obligations	65
Off-balance sheet arrangements	65
Contractual obligations	66
Guarantees	67
Risk Management	67
Overview	67
Market risk management	68
Liquidity risk management	73
Credit risk management	76
Operational and compliance risk management	81
Fourth Quarter Results	83
Earnings	83
Net interest income	83
Noninterest income	83
Noninterest expense	83
Provision for loan and lease losses	83
Income taxes	84

Critical Accounting Policies and Estimates	86
Allowance for loan and lease losses	86
Valuation methodologies	87
Derivatives and hedging	89
Contingent liabilities, guarantees and income taxes	89
European Sovereign and Non-Sovereign Debt Exposure	90

Table of Contents

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 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.

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 requirements — 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 Common Equity Tier 1, under the Regulatory Capital Rules. The "Capital" section of this report under the heading "Capital adequacy" in the MD&A provides more information on total capital, Tier 1 capital, and the Regulatory Capital Rules, including Common Equity Tier 1, and describes how the these measures are calculated.

Table of Contents

The acronyms and abbreviations identified below are used in the Notes to Consolidated Financial Statements as well as in the Management's Discussion and Analysis of Financial Condition and Results of Operations. You may find it helpful to refer back to this page as you read this report.

ABO: Accumulated benefit obligation.
ALCO: Asset/Liability Management Committee.
ALLL: Allowance for loan and lease losses.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
APBO: Accumulated postretirement benefit obligation.
ASC: Accounting Standards Codification.
ASU: Accounting Standards Update.
ATMs: Automated teller machines.
Austin: Austin Capital Management, Ltd.
BSA: Bank Secrecy Act.
BHCA: Bank Holding Company Act of 1956, as amended.
BHCs: Bank holding companies.
Board: KeyCorp Board of Directors.
CCAR: Comprehensive Capital Analysis and Review.
Cain Brothers: Cain Brothers & Company, LLC.
CFPB: Consumer Financial Protection Bureau.
CFTC: Commodities Futures Trading Commission.
CMBS: Commercial mortgage-backed securities.
CMO: Collateralized mortgage obligation.
Common Shares: KeyCorp common shares, $1 par value.
DIF: Deposit Insurance Fund of the FDIC.
IRS: Internal Revenue Service.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
KBCM: KeyBanc Capital Markets, Inc.
KCC: Key Capital Corporation.
KCDC: Key Community Development Corporation.
KEF: Key Equipment Finance.
KPP: Key Principal Partners.
KMS: Key Merchant Services, LLC.
LCR: Liquidity coverage ratio.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
Moody's: Moody's Investor Services, Inc.
MRM: Market Risk Management group.
N/A: Not applicable.
Nasdaq: The Nasdaq Stock Market LLC.
NFA: National Futures Association.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NPR: Notice of proposed rulemaking.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
PBO: Projected benefit obligation.
PCCR: Purchased credit card relationship.
PCI: Purchased credit impaired.
S&P: Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SEC: U.S. Securities & Exchange Commission.
Series A Preferred Stock: KeyCorp's 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
SIFIs: Systemically important financial institutions, including BHCs with total consolidated assets of at least $50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.
TCJ Act: Tax Cuts and Jobs Act.
TDR: Troubled debt restructuring.
TE: Taxable-equivalent.
U.S. Treasury: United States Department of the Treasury.
VaR: Value at risk.
VEBA: Voluntary Employee Beneficiary Association.
Victory: Victory Capital Management and/or Victory Capital Advisors.
VIE: Variable interest entity.

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
EBITDA: Earnings before interest, taxes, depreciation, and amortization.
EPS: Earnings per share.
ERISA: Employee Retirement Income Security Act of 1974.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIA: Federal Deposit Insurance Act, as amended.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve
System.
FHLB: Federal Home Loan Bank of Cincinnati.
FHLMC: Federal Home Loan Mortgage Corporation.
FICO: Fair Isaac Corporation
FINRA: Financial Industry Regulatory Authority.
First Niagara: First Niagara Financial Group, Inc.
FNMA: Federal National Mortgage Association.
FSOC: Financial Stability Oversight Council.
FVA: Fair value of employee benefit plan assets.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
HelloWallet: HelloWallet, LLC.

Table of Contents

Figure 1. Selected Financial Data

dollars in millions, except per share amounts	2017	2016	2015	2014	2013	Compound Annual Rate of Change (2013-2017)
YEAR ENDED DECEMBER 31,						
Interest income	$4,390	$3,319	$2,622	$2,554	$2,620	10.9 %
Interest expense	613	400	274	261	295	15.8
Net interest income	3,777	2,919	2,348	2,293	2,325	10.2
Provision for credit losses	229	266	166	57	138	10.7
Noninterest income	2,478	2,071	1,880	1,797	1,766	7.0
Noninterest expense	4,098	3,756	2,840	2,761	2,812	7.8
Income (loss) from continuing operations before income taxes	1,928	968	1,222	1,272	1,141	11.1
Income (loss) from continuing operations attributable to Key	1,289	790	915	939	870	8.2
Income (loss) from discontinued operations, net of taxes	7	1	1	(39)	40	(29.4)
Net income (loss) attributable to Key	1,296	791	916	900	910	7.3
Income (loss) from continuing operations attributable to Key common shareholders	1,219	753	892	917	847	7.6
Income (loss) from discontinued operations, net of taxes	7	1	1	(39)	40	(29.4)
Net income (loss) attributable to Key common shareholders	1,226	754	893	878	887	6.7
PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	$1.13	$.81	$1.06	$1.05	$.93	4.0
Income (loss) from discontinued operations, net of taxes	.01	—	—	(.04)	.04	(24.2)
Net income (loss) attributable to Key common shareholders [(a)]	1.14	.81	1.06	1.01	.98	3.1
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	1.12	.80	1.05	1.04	.93	3.8
Income (loss) from discontinued operations, net of taxes — assuming dilution	.01	—	—	(.04)	.04	(24.2)
Net income (loss) attributable to Key common shareholders — assuming dilution [(a)]	1.13	.80	1.05	.99	.97	3.1
Cash dividends paid	.38	.33	.29	.25	.215	12.1
Book value at year end	13.09	12.58	12.51	11.91	11.25	3.1
Tangible book value at year end	10.35	9.99	11.22	10.65	10.11	.5
Market price at year end	20.17	18.27	13.19	13.90	13.42	8.5
Dividend payout ratio	33.3 %	40.7 %	27.4 %	24.8 %	21.9 %	N/A
Weighted-average common shares outstanding (000)	1,072,078	927,816	834,846	871,464	906,524	3.4
Weighted-average common shares and potential common shares outstanding (000) [(b)]	1,088,593	938,536	844,489	878,199	912,571	3.6

AT DECEMBER 31,							
Loans	$86,405	$86,038	$59,876	$57,381	$54,457	9.7	%
Earning assets	123,490	121,966	83,780	82,269	79,467	9.2	
Total assets	137,698	136,453	95,131	93,820	92,934	8.2	
Deposits	105,235	104,087	71,046	71,998	69,262	8.7	
Long-term debt	14,333	12,384	10,184	7,874	7,650	13.4	
Key common shareholders' equity	13,998	13,575	10,456	10,239	10,012	6.9	
Key shareholders' equity	15,023	15,240	10,746	10,530	10,303	7.8	
PERFORMANCE RATIOS — FROM CONTINUING OPERATIONS							
Return on average total assets	.96 %	.70 %	.99 %	1.08 %	1.03 %	N/A	
Return on average common equity	8.65	6.26	8.63	9.01	8.48	N/A	
Return on average tangible common equity [c]	10.84	7.39	9.64	10.04	9.45	N/A	
Net interest margin (TE)	3.17	2.92	2.88	2.97	3.12	N/A	
Cash efficiency ratio [c]	63.5	73.7	65.9	66.2	67.3	N/A	
PERFORMANCE RATIOS — FROM CONSOLIDATED OPERATIONS							
Return on average total assets	.96 %	.69 %	.97 %	.99 %	1.02 %	N/A	
Return on average common equity	8.70	6.27	8.64	8.63	8.88	N/A	
Return on average tangible common equity [c]	10.90	7.40	9.65	9.61	9.90	N/A	
Net interest margin (TE)	3.15	2.91	2.85	2.94	3.02	N/A	
Loan to deposit [d]	84.4	85.2	87.8	84.6	83.8	N/A	
CAPITAL RATIOS AT DECEMBER 31,							
Key shareholders' equity to assets	10.91 %	11.17 %	11.30 %	11.22 %	11.09 %	N/A	
Key common shareholders' equity to assets	10.17	9.95	10.99	10.91	10.78	N/A	
Tangible common equity to tangible assets [c]	8.23	8.09	9.98	9.88	9.80	N/A	
Common Equity Tier 1	10.16	9.54	10.94	N/A	N/A	N/A	
Tier 1 common equity	N/A	N/A	N/A	11.17	11.22	N/A	
Tier 1 risk-based capital	11.01	10.89	11.35	11.90	11.96	N/A	
Total risk-based capital	12.92	12.85	12.97	13.89	14.33	N/A	
Leverage	9.73	9.90	10.72	11.26	11.11	N/A	
TRUST ASSETS							
Assets under management	$39,588	$36,592	$33,983	$39,157	$36,905	1.4	%
OTHER DATA							
Average full-time-equivalent employees	18,415	15,700	13,483	13,853	14,783	4.5	%
Branches	1,197	1,217	966	994	1,028	3.1	

(a) EPS may not foot due to rounding.

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

(c) See Figure 2 entitled "GAAP to Non-GAAP Reconciliations," which presents the computations of certain financial measures related to "tangible common equity" 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.

(d) 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).

Table of Contents

Figure 2 presents certain non-GAAP financial measures related to “tangible common equity,” “return on tangible common equity,” “cash efficiency ratio,” “pre-provision net revenue,” certain financial measures excluding notable items, and “Common Equity Tier 1 under the Regulatory Capital Rules”

Notable items include certain revenue or expense items that may occur in a reporting period which management does not consider indicative of ongoing financial performance. Management believes it is useful to consider certain financial metrics with and without merger-related charges and/or other notable items, including the impact of tax reform and related actions, in order to enable a better understanding of our results, increase comparability of period-to-period results, and to evaluate and forecast those results.

As disclosed in Note 2 ("Business Combination") and Note 15 (“Acquisitions, Divestiture, and Discontinued Operations”), we completed the purchase of First Niagara on August 1, 2016. The definitive agreement and plan of merger to acquire First Niagara was originally announced on October 30, 2015. As a result of this transaction, we have recognized merger-related charges which are included in the total for “notable items.” Figure 2 shows the computation of “return on average tangible common equity excluding notable items,” “pre-provision net revenue excluding notable items,” “cash efficiency ratio excluding notable items,” and “return on average assets from continuing operations excluding notable items.”

The tangible common equity ratio and the return on tangible common equity ratio have been a focus for some investors, and management believes that these ratios may assist investors in analyzing Key’s capital position without regard to the effects of intangible assets and preferred stock. Since analysts and banking regulators may assess our capital adequacy using tangible common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 2 reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Figure 2 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 also disclose the cash efficiency ratio excluding notable items. We believe these ratios provide greater consistency and comparability between our results and those of our peer banks. Additionally, these ratios are 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, nor as a substitute for analyses of results as reported under GAAP.

Table of Contents

Figure 2. GAAP to Non-GAAP Reconciliations

Year ended December 31, dollars in millions	2017	2016	2015	2014	2013
Tangible common equity to tangible assets at period end					
Key shareholders' equity (GAAP)	$15,023	$15,240	$10,746	$10,530	$10,303
Less: Intangible assets [a]	2,928	2,788	1,080	1,090	1,014
Preferred Stock [b]	1,009	1,640	281	282	282
Tangible common equity (non-GAAP)	$11,086	$10,812	$9,385	$9,158	$9,007
Total assets (GAAP)	$137,698	$136,453	$95,131	$93,820	$92,934
Less: Intangible assets [a]	2,928	2,788	1,080	1,090	1,014
Tangible assets (non-GAAP)	$134,770	$133,665	$94,051	$92,730	$91,920
Tangible common equity to tangible assets ratio (non-GAAP)	8.23 %	8.09 %	9.98 %	9.88 %	9.80 %
Notable items					
Merger-related charges	$(217)	$(474)	$(6)	—	—
Estimated impacts of tax reform and related actions	(30)	—	—	—	—
Merchant services gain	59	—	—	—	—
Purchase accounting finalization, net	43	—	—	—	—
Charitable contribution	(20)	—	—	—	—
Total notable items	$(165)	$(474)	$(6)	—	—
Income taxes	(53)	(175)	(2)	—	—
Reevaluation of certain tax related assets	147	—	—	—	—
Total notable items, after tax	$(259)	$(299)	$(4)	—	—
Average tangible common equity					
Average Key shareholders' equity (GAAP)	$15,224	$12,647	$10,626	$10,467	$10,276
Less: Intangible assets (average) [c]	2,837	1,825	1,085	1,039	1,021
Preferred Stock (average)	1,137	627	290	291	291
Average tangible common equity (non-GAAP)	$11,250	$10,195	$9,251	$9,137	$8,964
Return on average tangible common equity from continuing operations					
Income (loss) from continuing operations attributable to Key common shareholders (GAAP)	$1,219	$753	$892	$917	$847
Plus: Notable items (after-tax)	259	299	4	—	—
Income (loss) from continuing operations attributable to Key common shareholders excluding notable items (non-GAAP)	$1,478	$1,052	$896	$917	$847
Average tangible common equity (non-GAAP)	$11,250	$10,195	$9,251	$9,137	$8,964
Return on average tangible common equity from continuing operations (non-GAAP)	10.84 %	7.39 %	9.64 %	10.04 %	9.45 %
Return on average tangible common equity from continuing operations excluding notable items (non-GAAP)	13.14	10.32	9.69	10.04	9.45
Return on average tangible common equity consolidated					
Net income (loss) attributable to Key common shareholders (GAAP)	$1,226	$754	$893	$878	$887
Average tangible common equity (non-GAAP)	11,250	10,195	9,251	9,137	8,964
Return on average tangible common equity consolidated (non-GAAP)	10.90 %	7.40 %	9.65 %	9.61 %	9.90 %
Pre-provision net revenue					
Net interest income (GAAP)	$3,777	$2,919	$2,348	$2,293	$2,325

Plus: TE adjustment	53	34	28	24	23
Noninterest income (GAAP)	2,478	2,071	1,880	1,797	1,766
Less: Noninterest expense (GAAP)	4,098	3,756	2,840	2,761	2,812
Pre-provision net revenue from continuing operations (non-GAAP)	$2,210	$1,268	$1,416	$1,353	$1,302
Plus: Notable items	165	474	6	—	—
Pre-provision net revenue from continuing operations excluding notable items (non-GAAP)	$2,375	$1,742	$1,422	$1,353	$1,302
Cash efficiency ratio					
Noninterest expense (GAAP)	$4,098	$3,756	$2,840	$2,761	$2,812
Less: Intangible asset amortization (GAAP)	95	55	36	39	44
Adjusted noninterest expense (non-GAAP)	4,003	3,701	2,804	2,722	2,768
Less: Notable items [(d)]	262	465	6	—	—
Adjusted noninterest expense excluding notable items (non-GAAP)	$3,741	$3,236	$2,798	$2,722	$2,768
Net interest income (GAAP)	$3,777	$2,919	$2,348	$2,293	$2,325
Plus: TE adjustment	53	34	28	24	23
Noninterest income (GAAP)	2,478	2,071	1,880	1,797	1,766
Total TE revenue (non-GAAP)	6,308	5,024	4,256	4,114	4,114
Plus: Notable items [(e)]	(97)	9	—	—	—
Adjusted total TE revenue excluding notable items (non-GAAP)	$6,211	$5,033	$4,256	$4,114	$4,114
Cash efficiency ratio (non-GAAP)	63.5%	73.7%	65.9%	66.2%	67.3%
Cash efficiency ratio excluding notable items (non-GAAP)	60.2	64.3	65.7	66.2	67.3
Return on average total assets from continuing operations excluding notable items					
Income from continuing operations attributable to Key (GAAP)	$1,289	$790	$915	$939	$870
Plus: Notable items, after tax	259	299	4	—	—
Income from continuing operations attributable to Key excluding notable items, after tax (non-GAAP)	$1,548	$1,089	$919	$939	$870
Average total assets from continuing operations (GAAP)	$133,719	$112,537	$94,117	$87,077	$84,177
Return on average total assets from continuing operations excluding notable items (non-GAAP)	1.16%	.97%	.98%	1.08%	1.03%

Table of Contents

Figure 2. GAAP to Non-GAAP Reconciliations (Continued)

Year ended December 31, dollars in millions	2017
Common Equity Tier 1 under the Regulatory Capital Rules	
Common Equity Tier 1 under current Regulatory Capital Rules	$12,075
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Deferred tax assets and other intangible assets [f]	(67)
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules[g]	$12,008
Net risk-weighted assets under current Regulatory Capital Rules	$118,812
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Mortgage servicing assets [h]	664
All other assets	(23)
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules[g]	$119,453
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules[g]	10.05 %

(a) For the years ended December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, intangible assets exclude $26 million, $42 million, $45 million, $68 million, and $92 million, respectively, of period-end purchased credit card relationships.

(b) Net of capital surplus.

(c) For the years ended December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, average intangible assets exclude $34 million, $43 million, $55 million, $79 million, and $107 million, respectively, of average purchased credit card relationships.

(d) Notable items for the year ended December 31, 2017, include $217 million of merger-related charges, a $20 million charitable contribution, $30 million of estimated impacts of tax reform and related actions and a credit of approximately $5 million related to purchase accounting finalization.

(e) Notable items for the year ended December 31, 2017, include $59 million related to the merchant services acquisition gain, $39 million related to purchase accounting finalization, and $1 million related to the impacts of tax reform and related actions.

(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%.

Long-term financial targets

Figure 3 shows the evaluation of our long-term financial targets for the year ended December 31, 2017.

Figure 3. Evaluation of Our Long-Term Targets

	Key Metrics [a]	Year Ended December 31, 2017	Targets
Positive operating leverage	Cash efficiency ratio [b]	63.5 %	< 60%
	Cash efficiency ratio excluding notable items [b]	60.2 %	
Moderate risk profile	Net loan charge-offs to average loans	.24 %	.40 - .60 %

	Return on average tangible common equity [c]	10.84 %	
Financial Returns	Return on average tangible common equity excluding notable items [c]	13.14 %	13.00 - 15.00 %

(a) Calculated from continuing operations, unless otherwise noted.
(b) Excludes intangible asset amortization; non-GAAP measure: see Figure 2 for reconciliation.
(c) Non-GAAP measure: see Figure 2 for reconciliation.

As we have now reached our existing long-term goals in 2017, beginning in 2018, we have revised our long-term financial targets as follows:

- Generate positive operating leverage and a cash efficiency ratio in the range of 54% to 56%;
- Maintain a moderate risk profile by targeting a net loan charge-offs to average loans ratio in the range of .40% to .60%; and
- A return on tangible common equity ratio in the range of 15% to 18%.

Corporate strategy

We remain committed to enhancing long-term shareholder value by continuing to execute our relationship-oriented business model, growing our franchise, and being disciplined in our capital management. Our strategic focus is to deliver ease, value, and expertise to help our clients make better financial decisions and build enduring relationships. 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

Table of Contents

generating organic growth as it helps us expand engagement with existing clients and attract new customers. We will leverage our continuous improvement culture to maintain an efficient cost structure that is aligned, sustainable, and consistent with the current operating environment and that supports our relationship business model.

- Acquire and expand targeted client relationships — We seek to be client-centric in our actions and have taken purposeful steps to enhance our ability to acquire and expand targeted relationships. For example, in commercial banking, our ability to deliver a broad product set and industry expertise allows us to match client needs and market conditions to deliver attractive solutions to clients.
- 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 took the following actions during 2017 to support our corporate strategy:

- We continued to generate positive operating leverage versus the prior year. Our cash efficiency ratio, excluding notable items, was 60.2% for 2017, an improvement of 410 basis points compared to the prior year. We generated revenue synergies from our recent acquisitions, which we expect will continue to provide significant upside over the next several years. Revenue for 2017 grew 25.4% from 2016, driven by an increase in net interest income reflecting the full year benefit from the First Niagara acquisition in addition to higher interest rates, low deposit betas, and growth in our core earning asset balances. We also continued to experience growth in our fee-based businesses. The primary driver of the growth in noninterest income was investment banking and debt placement fees, which reached a new record level for the year of $603 million, driven by organic growth of almost 20%. Cards and payments also added to our growth in noninterest income, increasing 23.2% from the prior year. In 2017, we reached over $400 million in annual run rate cost savings from the First Niagara merger, with another $50 million expected to be realized by early 2018. Expenses for the year were elevated as a result of the full-year impact of the First Niagara acquisition, as well as higher expenses related to acquisitions completed in 2017. Expenses for 2017 also included a number of notable items including merger-related charges and the impact of tax reform and related actions.
- We saw continued strength in our credit quality trends during the year. For 2017, net loan charge-offs were .24% of average loans, down from .29% one year ago, and below our targeted range. Over the past 12 months, net loan charge-offs increased $3 million. This increase is attributable to the growth in our loan portfolio and higher charge-offs in our consumer loan portfolios partially offset by an increase in recoveries in our commercial and industrial loan portfolio.
- Capital management remained a priority in 2017. On June 28, 2017, the Federal Reserve announced that it did not object to our 2017 capital plan submitted as part of the annual CCAR process. The 2017 capital plan included share repurchases of up to $800 million, which is effective through the second quarter of 2018. During the third and fourth quarters of 2017, we completed $476 million of Common Share repurchases, including $469 million of Common Share repurchases in the open market and $7 million of Common Share repurchases related to employee equity compensation programs under the authorization. Over the past five years, we have repurchased over $2.2 billion in Common Shares.
- Consistent with our 2016 capital plan, the Board declared a quarterly dividend of $.085 per Common Share for the first quarter of 2017, and $.095 per Common Share for the second quarter of 2017. The Board declared a quarterly dividend of $.095 per Common Share for the third quarter of 2017, and a quarterly dividend of $.105 per Common

Share for the fourth quarter of 2017, consistent with our 2017 capital plan. These quarterly dividend payments brought our annual dividend to $.38 per Common Share for 2017. Our 2017 capital plan proposed an increase in our quarterly Common Share dividend, up to $.12 per share, which will be considered by the Board for the second quarter of 2018.

Table of Contents

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;
- asset quality; and
- fair value accounting of acquired earning assets and interest-bearing liabilities.

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 “TE 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 2017 statutory federal income tax rate of 35% — would yield $100.

Figure 4 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 TE 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.

TE net interest income for 2017 was $3.8 billion, and the net interest margin was 3.17%, compared to TE net interest income of $3.0 billion and a net interest margin of 2.92% for the prior year. 2017 reflects the full year benefit from the First Niagara acquisition, including purchase accounting accretion, higher interest rates, low deposit betas, and growth in our core earning asset balances. TE net interest income for 2016 increased $577 million from 2015 and the net interest margin increase by 4 basis points, reflecting the benefit from the First Niagara acquisition and growth in our core earning asset balances and yields. In 2018, we expect net interest income to be in the range of $3.9 billion to $4.0 billion, with our outlook assuming one additional rate increase in June 2018.

Table of Contents

(a) Average deposits for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, exclude deposits in foreign office.

Average loans totaled $86.4 billion for 2017, compared to $71.1 billion in 2016. This increase reflected the impact of the First Niagara acquisition and growth in commercial and industrial loans. For 2018, we anticipate average loans to be in the range of $88.5 billion to $89.5 billion.

Average earning assets totaled $120.8 billion for 2017, compared to $101.3 billion in 2016, reflecting the full year impact of the First Niagara acquisition, as well as growth in commercial and industrial loans. At December 31, 2017, the remaining fair value discount on the First Niagara acquired loan portfolio was $266 million.

Average deposits totaled $102.9 billion for 2017, an increase of $16.6 billion compared to 2017, primarily reflecting the full year impact of the First Niagara acquisition. In addition, we realized core deposit growth in 2017 driven by the strength of our retail banking franchise and from commercial clients, partly offset by the managed exit of higher cost corporate and public sector deposits. For 2018, we anticipate average deposits to be in the range of $104.5 billion to $105.5 billion.

Table of Contents

Figure 4. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates from Continuing Operations

Year ended December 31,	2017			2016		
dollars in millions	Average Balance	Interest [a]	Yield/ Rate [a]	Average Balance	Interest [a]	Yield/ Rate [a]
ASSETS						
Loans [b], [c]						
Commercial and industrial [d]	$40,848	$ 1,613	3.95 %	$35,276	$ 1,215	3.45 %
Real estate — commercial mortgage	14,878	687	4.62	11,063	451	4.07
Real estate — construction	2,143	103	4.78	1,460	76	5.22
Commercial lease financing	4,677	185	3.96	4,261	161	3.78
Total commercial loans	62,546	2,588	4.14	52,060	1,903	3.66
Real estate — residential mortgage	5,499	214	3.89	3,632	148	4.09
Home equity loans	12,380	536	4.33	11,286	456	4.04
Consumer direct loans	1,765	126	7.12	1,661	113	6.79
Credit cards	1,055	118	11.15	916	98	10.73
Consumer indirect loans	3,120	148	4.75	1,593	89	5.58
Total consumer loans	23,819	1,142	4.79	19,088	904	4.74
Total loans	86,365	3,730	4.32	71,148	2,807	3.95
Loans held for sale	1,325	52	3.96	979	34	3.51
Securities available for sale [b], [e]	18,548	369	1.96	16,661	329	1.98
Held-to-maturity securities [b]	10,515	222	2.11	6,275	122	1.94
Trading account assets	949	27	2.81	884	23	2.59
Short-term investments	2,363	26	1.11	4,656	22	.47
Other investments [e]	712	17	2.35	679	16	2.37
Total earning assets	120,777	4,443	3.67	101,282	3,353	3.31
Allowance for loan and lease losses	(865)			(835)		
Accrued income and other assets	13,807			12,090		
Discontinued assets	1,448			1,707		
Total assets	$135,167			$114,244		
LIABILITIES						
NOW and money market deposit accounts	$54,032	143	.26	$46,079	87	.19
Savings deposits	6,569	13	.20	3,957	3	.07
Certificates of deposit ($100,000 or more)[f]	6,233	82	1.31	3,911	48	1.22
Other time deposits	4,698	40	.85	4,088	33	.81
Deposits in foreign office	—	—	—	—	—	—
Total interest-bearing deposits	71,532	278	.39	58,035	171	.30
Federal funds purchased and securities sold under repurchase agreements	517	1	.24	487	1	.10
Bank notes and other short-term borrowings	1,140	15	1.34	852	10	1.18
Long-term debt [f], [g]	11,921	319	2.69	9,802	218	2.29
Total interest-bearing liabilities	85,110	613	.72	69,176	400	.58
Noninterest-bearing deposits	31,414			28,317		
Accrued expense and other liabilities	1,970			2,393		
Discontinued liabilities [g]	1,448			1,706		
Total liabilities	119,942			101,592		
EQUITY						
Key shareholders' equity	15,224			12,647		
Noncontrolling interests	1			5		
Total equity	15,225			12,652		

Total liabilities and equity	$135,167			$114,244		
Interest rate spread (TE)			2.95 %			2.73 %
Net interest income (TE) and net interest margin (TE)		3,830	3.17 %		2,953	2.92 %
Less: TE adjustment [b]		53			34	
Net interest income, GAAP basis		$ 3,777			$ 2,919	

(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 TE basis using the statutory federal income tax rate in effect that calendar year.

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

(d) Commercial and industrial average balances include $117 million, $99 million, $88 million, $93 million, and $95 million of assets from commercial credit cards for the years ended December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, respectively.

42

Table of Contents

Figure 4. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates from Continuing Operations (Continued)

2015			2014			2013			Compound Annual Rate of Change (2013-2017)	
Average Balance	Interest [(a)]	Yield/ Rate [(a)]	Average Balance	Interest [(a)]	Yield/ Rate [(a)]	Average Balance	Interest [(a)]	Yield/ Rate [(a)]	Average Balance	Interest
$29,658	$ 953	3.21 %	$26,375	$ 866	3.28 %	$23,723	$ 855	3.60 %	11.5 %	13.5 %
8,020	295	3.68	7,999	303	3.79	7,591	312	4.11	14.4	17.1
1,143	43	3.73	1,061	43	4.07	1,058	45	4.25	15.2	18.0
3,976	143	3.60	4,239	156	3.67	4,683	172	3.67	—	1.5
42,797	1,434	3.35	39,674	1,368	3.45	37,055	1,384	3.73	11.0	13.3
2,244	95	4.21	2,201	96	4.37	2,185	98	4.49	20.3	16.9
10,503	418	3.98	10,639	428	4.02	10,463	426	4.07	3.4	4.7
1,580	103	6.54	1,501	104	6.92	1,404	103	7.33	4.7	4.1
752	81	10.76	712	78	10.95	701	83	11.86	8.5	7.3
718	46	6.43	952	60	6.31	1,246	80	6.38	20.2	13.1
15,797	743	4.70	16,005	766	4.79	15,999	790	4.94	8.3	7.6
58,594	2,177	3.71	55,679	2,134	3.83	53,054	2,174	4.10	10.2	11.4
959	37	3.85	570	21	3.76	532	20	3.72	20.0	21.1
13,720	293	2.14	12,210	277	2.27	12,689	311	2.49	7.9	3.5
4,936	96	1.95	4,949	93	1.88	4,387	82	1.87	19.1	22.0
761	21	2.80	932	25	2.70	756	21	2.78	4.7	5.2
2,843	8	.27	2,886	6	.21	2,948	6	.20	(4.3)	34.1
706	18	2.63	865	22	2.53	1,028	29	2.84	(7.1)	(10.1)
82,519	2,650	3.21	78,091	2,578	3.30	75,394	2,643	3.51	9.9	10.9
(791)			(818)			(879)			(.3)	
10,298			9,804			9,662			7.4	
2,132			3,828			5,036			(22.1)	
$94,158			$90,905			$89,213			8.7 %	
$36,258	56	.15	$34,283	48	.14	$32,846	53	.16	10.5 %	22.0
2,372	—	.02	2,446	1	.02	2,505	1	.04	21.3	67.0
2,041	26	1.28	2,616	35	1.35	2,829	50	1.76	17.1	10.4
3,115	22	.71	3,495	32	.91	4,084	53	1.30	2.8	(5.5)
489	1	.23	615	1	.23	567	1	.23	N/M	N/M
44,275	105	.24	43,455	117	.27	42,831	158	.37	10.8	12.0
632	—	.04	1,182	2	.16	1,802	2	.13	(22.1)	(12.9)
572	9	1.52	597	9	1.49	394	8	1.89	23.7	13.4
7,332	160	2.24	5,159	133	2.68	4,184	127	3.28	23.3	20.2
52,811	274	.52	50,393	261	.52	49,211	295	.60	11.6	15.8
26,355			24,410			23,046			6.4	
2,222			1,791			1,656			3.5	
2,132			3,828			4,995			(21.9)	
83,520			80,422			78,908			8.7	

10,626			10,467			10,276			8.2	
12			16			29			(49.0)	
10,638			10,483			10,305			8.1	
$94,158			$90,905			$89,213			8.7 %	
		2.69 %			2.78 %			2.91 %		
	2,376	2.88 %		2,317	2.97 %		2,348	3.12 %		10.3
	28			24			23			18.2
	$ 2,348			$ 2,293			$ 2,325			10.2 %

(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.

Table of Contents

Figure 5 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 5. Components of Net Interest Income Changes from Continuing Operations

in millions	2017 vs. 2016			2016 vs. 2015		
	Average Volume	Yield/Rate	Net Change[a]	Average Volume	Yield/Rate	Net Change[a]
INTEREST INCOME						
Loans	$640	$283	$ 923	$488	$142	$ 630
Loans held for sale	13	5	18	1	(4)	(3)
Securities available for sale	38	2	40	59	(23)	36
Held-to-maturity securities	89	11	100	26	—	26
Trading account assets	2	2	4	3	(1)	2
Short-term investments	(15)	19	4	7	7	14
Other investments	1	—	1	(1)	(1)	(2)
Total interest income (TE)	768	322	1,090	583	120	703
INTEREST EXPENSE						
NOW and money market deposit accounts	17	39	56	17	14	31
Savings deposits	3	7	10	—	3	3
Certificates of deposit ($100,000 or more)	30	4	34	23	(1)	22
Other time deposits	5	2	7	8	3	11
Deposits in foreign office	—	—	—	(1)	—	(1)
Total interest-bearing deposits	55	52	107	47	19	66
Federal funds purchased and securities sold under repurchase agreements	—	—	—	—	1	1
Bank notes and other short-term borrowings	4	1	5	3	(2)	1
Long-term debt	52	49	101	55	3	58
Total interest expense	111	102	213	105	21	126
Net interest income (TE)	$657	$220	$ 877	$478	$99	$ 577

(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.

Provision for credit losses

Our provision for credit losses was $229 million for 2017, compared to $266 million for 2016. The decrease of $37 million in our provision for credit losses is related to a decrease in our ALLL taken during 2017 on our commercial loan portfolio when compared to the year prior, partially offset by a slight increase in our net loan charge-offs over the past twelve months. The commercial ALLL decreased due to a year over year reduction in loan outstandings as well as a decrease in classified and nonperforming loans. For 2016, the increase of $100 million in our provision for credit losses was primarily related to the addition of the acquired credit card and consumer direct portfolios, increased charge-offs, and loan growth. In 2018, we expect the provision to slightly exceed net loan charge-offs to provide for loan growth.

Noninterest income

Noninterest income for 2017 was $2.5 billion, compared to $2.1 billion during 2016, and $1.9 billion during 2015. Noninterest income represented 39% of total revenue for 2017, 41% of total revenue for 2016, and 44% of total revenue for 2015. In 2018, we expect noninterest income to be in the range of $2.5 billion to $2.6 billion.

Table of Contents

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

Figure 6. Noninterest Income

(a) Other noninterest income includes operating lease income and other leasing gains, corporate services income, corporate-owned life insurance income, consumer mortgage income, mortgage servicing fees, net gains (losses) from principal investing, and other income. See the "Consolidated Statements of Income" in Part II, Item 8. Financial Statements and Supplementary Data of this report.

Trust and investment services income

Trust and investment services income consists of brokerage commissions, trust and asset management commissions, and insurance income. For 2017, trust and investment services income increased $71 million, or 15.3%, from the prior year primarily due to an increase in insurance and brokerage commissions due to the full year impact of the First Niagara acquisition and higher fees earned from investment management services as a result of stronger market performance. For 2016, trust and investment services income increased $31 million, or 7.2%, from the prior year primarily due to the acquisition of First Niagara and higher insurance and brokerage commissions.

Table of Contents

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2017, our bank, trust, and registered investment advisory subsidiaries had assets under management of $39.6 billion, compared to $36.6 billion at December 31, 2016, and $34.0 billion at December 31, 2015. As shown in Figure 7, the increase from 2016 to 2017 was primarily attributable to the market appreciation over the past twelve months. The increase from 2015 to 2016 was primarily attributable to the acquisition of First Niagara.

Figure 7. Assets Under Management

Year ended December 31,				Change 2017 vs. 2016	
dollars in millions	2017	2016	2015	Amount	Percent
Assets under management by investment type:					
Equity	$24,081	$21,722	$20,199	$2,359	10.9 %
Securities lending	947	1,148	1,215	(201)	(17.5)
Fixed income	10,930	10,386	9,705	544	5.2
Money market	3,630	3,336	2,864	294	8.8
Total	$39,588	$36,592	$33,983	$2,996	8.2 %

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 2017, investment banking and debt placement fees increased $121 million, or 25.1%, from the prior year due to growth in financial advisory, debt financing, and mortgage banking fees from our core franchise, as well as the acquisition of Cain Brothers in October 2017. For 2016, investment banking and debt placement fees increased $37 million, or 8.3%, from the prior year primarily driven by increased gains on the sale of commercial mortgages and agency origination fees, partially offset by a decrease in syndication fees.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased $54 million, or 23.2%, in 2017 compared to 2016 primarily due to the acquisition of First Niagara and higher volumes in ATM debit card, purchase and pre-paid cards, and merchant services. Cards and payments income increased $50 million, or 27.3%, in 2016 compared to 2015 due to the acquisition of First Niagara and higher merchant services, purchase card, and ATM debit card fees driven by increased volume.

Service charges on deposit accounts

Service charges on deposit accounts increased $55 million, or 18%, in 2017 compared to the prior year primarily driven by the full-year impact of the First Niagara acquisition and investments in commercial payments. Service charges on deposit accounts increased $46 million, or 18%, in 2016 compared to 2015 primarily due to the acquisition of First Niagara.

Other noninterest income

Other noninterest income includes operating lease income and other leasing gains, corporate services income, corporate-owned life insurance income, consumer mortgage income, mortgage servicing fees, net gains (losses) from principal investing, and other income. Other noninterest income increased $106 million, or 18.0%, in 2017 compared to 2016. Drivers include a full year impact of First Niagara, a one-time gain related to Key’s merchant services

acquisition in the second quarter of 2017, higher operating lease income originations, and growth from investments in the Residential Mortgage business. Other noninterest income increased $27 million, or 4.8%, in 2016 compared to 2015, driven by the acquisition of First Niagara, gains related to certain investments held by the Real Estate Capital line of business, and changes in various miscellaneous income categories.

Noninterest expense

Noninterest expense for 2017 was $4.1 billion, compared to $3.8 billion for 2016, and $2.8 billion for 2015. We recognized $217 million of merger-related charges in 2017 compared to $483 million of merger- and pension-related charges in 2016 and $61 million of merger-, pension-, and efficiency-related charges in 2015. Figure 8 gives

Table of Contents

a breakdown of our major categories of noninterest expense as a percentage of total noninterest expense for the twelve months ended December 31, 2017. In 2018, we expect noninterest expense to be in the range of $3.85 billion to $3.95 billion.

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

Figure 8. Noninterest Expense

(a) Other noninterest expense includes equipment, operating lease expense, marketing, FDIC assessment, intangible asset amortization, OREO expense, net, and other expense. See the "Consolidated Statements of Income" in Part II, Item 8. Financial Statements and Supplementary Data of this report.

(a) See Figure 2 entitled “GAAP to Non-GAAP Reconciliations,” which presents the computations of certain financial measures related to “cash efficiency.” The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

Table of Contents

Figure 9. Merger-Related Charges

Year ended December 31, dollars in millions	2017	2016	2015	Change 2017 vs. 2016 Amount	Percent
Net interest income	—	$(6)	—	$6	N/M
Operating lease income and other leasing gains	—	(2)	—	2	N/M
Other income	—	(1)	—	1	N/M
Noninterest income	—	(3)	—	3	N/M
Personnel	$112	228	—	(116)	(50.9)%
Net occupancy	14	29	—	(15)	(51.7)
Business services and professional fees	16	66	$ 5	(50)	(75.8)
Computer processing	12	53	—	(41)	(77.4)
Marketing	22	26	—	(4)	(15.4)
Other nonpersonnel expense	41	63	1	(22)	(34.9)
Noninterest expense	217	465	6	(248)	(53.3)
Total merger-related charges	$217	$474	$ 6	$(257)	(54.2)%

Personnel

As shown in Figure 10, personnel expense, the largest category of our noninterest expense, increased by $200 million, or 9.6%, in 2017 compared to 2016. The increase was primarily attributable to the full-year impact of the First Niagara acquisition and the Cain Brothers acquisition in October 2017. In addition, there was higher incentive and stock-based compensation due to higher funding driven by business performance improvements of both cash based incentive plans and performance based stock awards.

Personnel expense increased by $421 million, or 25.5%, from 2015 to 2016. The increase was primarily attributable to the acquisition of First Niagara. In addition, there was higher incentive and stock-based compensation due to higher funding driven by business performance improvements of both cash based incentive plans and performance based stock awards.

Figure 10. Personnel Expense

Year ended December 31, dollars in millions	2017	2016	2015	Change 2017 vs. 2016 Amount	Percent
Salaries and contract labor	$1,341	$1,191	$958	$150	12.6 %
Incentive and stock-based compensation [(a)]	566	537	410	29	5.4
Employee benefits	342	297	266	45	15.2
Severance	24	48	18	(24)	(50.0)
Total personnel expense	$2,273	$2,073	$1,652	$200	9.6 %
Notable items [(b)]	128	228	—	(100)	(43.9)
Total personnel expense excluding notable items	$2,145	$1,845	$1,652	$300	16.3 %

(a) Excludes directors' stock-based compensation of $3 million in both 2017 and 2016, and $1 million in 2015, reported as "other noninterest expense" in Figure 8.

(b) For the twelve months ended December 31, 2017, notable items includes $112 million of merger-related charges and $16 million of estimated impacts of tax reform related actions. For the twelve months ended December 31, 2016, notable items includes $228 million of merger-related charges.

Net occupancy

Net occupancy expense increased $26 million, or 8.5%, in 2017 compared to 2016, primarily due to the full-year impact of the First Niagara acquisition. Net occupancy expense increased $50 million, or 19.6%, in 2016 compared to

2015, primarily due to the acquisition of First Niagara.
Other noninterest expense
Other noninterest expense includes equipment, operating lease expense, marketing, FDIC assessment, intangible asset amortization, OREO expenses, and other miscellaneous expense categories. In total, other noninterest expense increased $189 million, or 21.3%, in 2017 compared to 2016, primarily due to the full year impact of the acquisition of First Niagara. Growth was also driven by on-going investments and business acquisitions during 2017, including the build out of the Residential Mortgage platform, and the acquisitions of HelloWallet, Cain Brothers, and merchant services. Other noninterest expense increased $278 million, or 45.6%, in 2016 compared to 2015. Drivers include the impact of the First Niagara acquisition, higher operating lease expenses, cards and payments processing, and changes in other miscellaneous expenses.

Table of Contents

Income taxes

We recorded a tax provision from continuing operations of $637 million for 2017, compared to $179 million for 2016, and $303 million for 2015. The increase in tax provision from 2016 to 2017 was driven by the TCJ Act. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 33.0% for 2017, compared to 18.5% for 2016, and 24.8% for 2015. In 2018, we expect our GAAP tax rate to be in the range of 18% to 19%.

In 2017, our federal tax expense and effective tax rate differ from the amount that would be calculated using the federal statutory tax rate; primarily from investments in tax-advantaged assets, such as corporate-owned life insurance, tax credits associated with investments in low-income housing projects and energy related projects, periodic adjustments to our tax reserves, and the impact of the TCJ Act as described in Note 14, Income Taxes.

In 2016, our effective tax rate was reduced due to lower pretax income resulting from merger-related charges, increased energy tax credits associated with leasing activities, and a reduction of valuation allowances related to capital loss carryforwards. In 2015, our effective tax rate was reduced due to additional federal tax credit refunds.

Line of Business Results

This section summarizes the financial performance of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 25 (“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 11 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 11. Major Business Segments — Taxable-Equivalent Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31,				Change 2017 vs. 2016	
dollars in millions	2017	2016	2015	Amount	Percent
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	$3,843	$2,878	$2,275	$965	33.5 %
Key Corporate Bank	2,337	2,062	1,812	275	13.3
Other Segments	128	106	175	22	20.8
Total Segments	6,308	5,046	4,262	1,262	25.0
Reconciling Items	—	(22)	(6)	22	N/M
Total	$6,308	$5,024	$4,256	$1,284	25.6 %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	$649	$365	$255	$284	77.8 %
Key Corporate Bank	814	628	544	186	29.6
Other Segments	125	89	125	36	40.4
Total Segments	1,588	1,082	924	506	46.8
Reconciling Items [(a)]	(299)	(292)	(9)	(7)	N/M
Total	$1,289	$790	$915	$499	63.2 %

(a) Reconciling items consist primarily of the unallocated portion of merger-related charges, certain estimated impacts of tax reform, and items not allocated to the business segments because they do not reflect their normal operations.

Table of Contents

Key Community Bank summary of operations

As shown in Figure 12, Key Community Bank recorded net income attributable to Key of $649 million for 2017, compared to $365 million for 2016, and $255 million for 2015. The increase in 2017 was primarily due to the acquisition of First Niagara as well as growth in Key's core businesses.

TE net interest income increased in 2017 compared to 2016. The increase is primarily due to growth in both loan and deposit balances. The balance increases are primarily due to a full year impact of the First Niagara acquisition. TE net interest income also benefited from growth in core businesses, higher interest rates, and well-managed deposit betas.

Noninterest income increased from 2016. The increase in 2017 was primarily due to a full-year impact of the First Niagara acquisition as well as growth in Key's core businesses. Growth in Key's core businesses included higher trust and investment services income due to market growth of assets under management, strength in cards and payments, and higher deposit service charges driven by investments in commercial payments. The increase in other income includes a one-time gain related to Key's merchant services acquisition in the second quarter of 2017.

The provision for credit losses increased from 2016, primarily related to loan growth in 2017.

Noninterest expense increased from 2016 primarily related to a full year impact of First Niagara. In addition to the impact of First Niagara, personnel expense increases are primarily related to on-going business investments and business acquisitions including HelloWallet in the third quarter of 2017. Nonpersonnel expense increased primarily due to on-going business investments and business acquisitions including HelloWallet and Key's merchant services acquisition in 2017.

In 2016, Key Community Bank's net income attributable to Key increased from the prior year. TE net interest income increased from 2015. The positive contribution to net interest income is from loan and deposit growth related to the acquisition of First Niagara and the increased value of deposits. Noninterest income increased from 2015 driven by the acquisition of First Niagara and includes higher service charges on deposits, higher cards and payments income due to higher merchant services, purchase card and ATM debit card income, and higher trust and investment services income driven by higher insurance and brokerage commissions. The provision for loan and lease losses increased from 2015 primarily related to the addition of acquired First Niagara loan portfolios and loan growth. Noninterest expense increased from 2015. Personnel expense increased primarily related to the addition of First Niagara employees. Nonpersonnel expense increased primarily due to higher intangible amortization expense, FDIC assessment expense, and other various expenses related to the acquisition of First Niagara.

Figure 12. Key Community Bank

Year ended December 31,				Change 2017 vs. 2016	
dollars in millions	2017	2016	2015	Amount	Percent
SUMMARY OF OPERATIONS					
Net interest income (TE)	$2,643	$1,953	$1,487	$690	35.3 %
Noninterest income	1,200	925	788	275	29.7
Total revenue (TE)	3,843	2,878	2,275	965	33.5
Provision for credit losses	209	143	90	66	46.2
Noninterest expense	2,602	2,153	1,779	449	20.9
Income (loss) before income taxes (TE)	1,032	582	406	450	77.3
Allocated income taxes (benefit) and TE adjustments	383	217	151	166	76.5
Net income (loss) attributable to Key	$649	$365	$255	$284	77.8 %
AVERAGE BALANCES					
Loans and leases	$47,383	$37,620	$30,834	$9,763	26.0 %
Total assets	51,433	40,300	32,948	11,133	27.6
Deposits	79,669	63,873	51,163	15,796	24.7
Assets under management at year end	39,588	36,592	33,983	2,996	8.2

Table of Contents

ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31,				Change 2017 vs. 2016	
dollars in millions	2017	2016	2015	Amount	Percent
NONINTEREST INCOME					
Trust and investment services income	$396	$321	$296	$75	23.4 %
Services charges on deposit accounts	307	251	213	56	22.3
Cards and payments income	247	203	168	44	21.7
Other noninterest income	250	150	111	100	66.7
Total noninterest income	$1,200	$925	$788	$275	29.7 %
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	$44,699	$35,599	$28,400	$9,100	25.6 %
Savings deposits	5,204	3,607	2,363	1,597	44.3
Certificates of deposits ($100,000 or more)	4,182	2,694	1,588	1,488	55.2
Other time deposits	4,688	4,060	3,112	628	15.5
Deposits in foreign office	—	—	277	—	N/M
Noninterest-bearing deposits	20,896	17,913	15,423	2,983	16.7
Total deposits	$79,669	$63,873	$51,163	$15,796	24.7 %
HOME EQUITY LOANS					
Average portfolio balance	$12,242	$11,058	$10,266		
Weighted-average loan-to-value ratio (at date of origination)	70 %	71 %	71 %		
Percent first lien positions	60	57	61		
OTHER DATA					
Branches	1,197	1,217	966		
Automated teller machines	1,572	1,593	1,256		

Table of Contents

Key Corporate Bank summary of operations

As shown in Figure 13, Key Corporate Bank recorded net income attributable to Key of $814 million for 2017, compared to $628 million for 2016 and $544 million for 2015. The 2017 increase was driven by an increase in revenue and lower provision for credit losses, but slightly offset by higher noninterest expense.

TE net interest income increased in 2017 compared to 2016. This increase is primarily due to growth in both loan and deposit balances. The balance increases are due to a full year impact of the First Niagara acquisition as well as growth in core businesses.

Noninterest income increased from 2016. The majority of the increase is related to growth in investment banking and debt placement fees, with growth in financial advisory, debt capital markets, and mortgage banking fees from our core Key franchise as well as the fourth quarter acquisition of Cain Brothers. Operating lease income and other leasing gains increased due to higher originations. Cards and payments income increased due to higher volumes in purchase and pre-paid card and merchant services. Slightly offsetting these increases is a decline in other noninterest income mostly driven by impairments and lower gains related to certain investments held by the Real Estate Capital line of business.

The provision for credit losses decreased from 2016, primarily due to lower net loan charge-offs and lower provisioning related to improving credit quality in the overall portfolio.

Noninterest expense increased from 2016. Personnel expense increased due to higher salaries, incentive compensation, benefits, and stock-based compensation expense partially related to the acquisition of Cain Brothers as well as higher performance-based compensation. Nonpersonnel expense increased due to higher operating lease expense, cards and payments processing, and other various expenses related to the acquisition of Cain Brothers.

In 2016, Key Corporate Bank's net income attributable to Key increased from the prior year. TE net interest income increased compared to 2015, due to higher balances related to the First Niagara acquisition and growth in core businesses. Noninterest income increased due to growth in investment banking and debt placement fees, other noninterest income, and cards and payments income. The provision for credit losses increased primarily due to increased net loan charge-offs. Noninterest expense increased due to higher salaries, incentive compensation, benefits, and stock-based compensation expense largely related to the acquisition of First Niagara as well as higher performance-based compensation, higher operating lease expense, cards and payments processing, FDIC assessment, and other various expenses related to the acquisition of First Niagara.

Figure 13. Key Corporate Bank

Year ended December 31,				Change 2017 vs. 2016	
dollars in millions	2017	2016	2015	Amount	Percent
SUMMARY OF OPERATIONS					
Net interest income (TE)	$1,190	$1,049	$886	$141	13.4 %
Noninterest income	1,147	1,013	926	134	13.2
Total revenue (TE)	2,337	2,062	1,812	275	13.3
Provision for credit losses	20	127	83	(107)	(84.3)
Noninterest expense	1,257	1,131	988	126	11.1
Income (loss) before income taxes (TE)	1,060	804	741	256	31.8
Allocated income taxes and TE adjustments	246	178	196	68	38.2
Net income (loss)	814	626	545	188	30.0
Less: Net income (loss) attributable to noncontrolling interests	—	(2)	1	2	(100.0)
Net income (loss) attributable to Key	$814	$628	$544	$186	29.6 %
AVERAGE BALANCES					
Loans and leases	$37,732	$31,929	$25,865	$5,803	18.2 %
Loans held for sale	1,242	934	937	308	33.0
Total assets	44,521	37,801	31,541	6,720	17.8
Deposits	21,318	20,783	19,043	535	2.6

Table of Contents

ADDITIONAL KEY CORPORATE BANK DATA

Year ended December 31,				Change 2017 vs. 2016	
dollars in millions	2017	2016	2015	Amount	Percent
NONINTEREST INCOME					
Trust and investment services income	$138	$143	$137	$(5)	(3.5)%
Investment banking and debt placement fees	589	471	439	118	25.1
Operating lease income and other leasing gains	80	56	62	24	42.9
Corporate services income	156	157	155	(1)	(.6)
Service charges on deposit accounts	50	50	43	—	—
Cards and payments income	40	29	15	11	37.9
Payments and services income	246	236	213	10	4.2
Mortgage servicing fees	61	53	48	8	15.1
Other noninterest income	33	54	27	(21)	(38.9)
Total noninterest income	$1,147	$1,013	$926	$134	13.2 %

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 $125 million for 2017, compared to $89 million for 2016, and $125 million for 2015.

Table of Contents

Financial Condition

Loans and loans held for sale

Figure 14 shows the composition of our loan portfolio at December 31 for each of the past five years.

Figure 14. Composition of Loans

	2017		2016		2015	
December 31, dollars in millions	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
COMMERCIAL						
Commercial and industrial [a]	$41,859	48.4 %	$39,768	46.2 %	$31,240	52.2 %
Commercial real estate: [b]						
Commercial mortgage	14,088	16.3	15,111	17.6	7,959	13.3
Construction	1,960	2.3	2,345	2.7	1,053	1.7
Total commercial real estate loans	16,048	18.6	17,456	20.3	9,012	15.0
Commercial lease financing [c]	4,826	5.6	4,685	5.5	4,020	6.7
Total commercial loans [d]	62,733	72.6	61,909	72.0	44,272	73.9
CONSUMER						
Real estate — residential mortgage	5,483	6.3	5,547	6.4	2,242	3.7
Home equity loans	12,028	13.9	12,674	14.7	10,335	17.3
Consumer direct loans	1,794	2.1	1,788	2.1	1,600	2.7
Credit cards	1,106	1.3	1,111	1.3	806	1.3
Consumer indirect loans	3,261	3.8	3,009	3.5	621	1.1
Total consumer loans	23,672	27.4	24,129	28.0	15,604	26.1
Total loans [e], [f]	$86,405	100.0 %	$86,038	100.0 %	$59,876	100.0 %

	2014		2013	
	Amount	Percent of Total	Amount	Percent of Total
COMMERCIAL				
Commercial and industrial [a]	$27,982	48.8 %	$24,963	45.8 %
Commercial real estate:				
Commercial mortgage	8,047	14.0	7,720	14.2
Construction	1,100	1.9	1,093	2.0
Total commercial real estate loans	9,147	15.9	8,813	16.2
Commercial lease financing [c]	4,252	7.4	4,551	8.4
Total commercial loans	41,381	72.1	38,327	70.4
CONSUMER				
Real estate — residential mortgage	2,225	3.9	2,187	4.0
Home equity loans	10,633	18.6	10,674	19.6
Consumer direct loans	1,560	2.7	1,449	2.7
Credit cards	754	1.3	722	1.3
Consumer indirect loans	828	1.4	1,098	2.0
Total consumer loans	16,000	27.9	16,130	29.6
Total loans [e], [f]	$57,381	100.0 %	$54,457	100.0 %

(a) Loan balances include $119 million, $116 million, $85 million, $88 million, and $94 million of commercial credit card balances at December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014, and December 31, 2013, respectively.

(b)

See Figure 16 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2017, and December 31, 2016.

(c) Commercial lease financing includes receivables held as collateral for a secured borrowing of $24 million, $68 million, $134 million, $302 million, and $58 million at December 31, 2017, December 31, 2016, 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 20 ("Long-Term Debt").

(d) See Figure 15 for a more detail breakdown of our commercial loans at December 31, 2017, and December 31, 2016.

(e) Total loans exclude loans of $1.3 billion at December 31, 2017, $1.6 billion at December 31, 2016, $1.8 billion at December 31, 2015, $2.3 billion at December 31, 2014, and $4.5 billion at December 31, 2013, related to the discontinued operations of the education lending business.

(f) At December 31, 2017, total loans include purchased loans of $15.4 billion, of which $738 million were PCI loans. At December 31, 2016, total loans include purchased loans of $21.0 billion, of which $865 million were PCI loans. 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, 2017, total loans outstanding from continuing operations were $86.4 billion, compared to $86.0 billion at the end of 2016. 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."

Table of Contents

Commercial loan portfolio

Commercial loans outstanding were $62.7 billion at December 31, 2017, an increase of $824 million, or 1.3%, compared to December 31, 2016.

Figure 15 provides our commercial loan portfolio by industry classification as of December 31, 2017, and December 31, 2016.

Figure 15. Commercial Loans by Industry

December 31, 2017 dollars in millions	Commercial and industrial	Commercial real estate	Commercial lease financing	Total commercial loans	Percent of total
Industry classification:					
Agricultural	$ 742	$ 156	$ 100	$ 998	1.5 %
Automotive	2,156	474	73	2,703	4.3
Business products	1,845	148	52	2,045	3.3
Business services	2,711	158	245	3,114	5.0
Commercial real estate	5,595	10,392	23	16,010	25.5
Construction materials and contractors	1,693	320	162	2,175	3.5
Consumer discretionary	3,646	565	542	4,753	7.6
Consumer services	3,005	937	262	4,204	6.7
Equipment	1,505	137	118	1,760	2.8
Financial	4,081	62	341	4,484	7.1
Healthcare	3,246	2,233	389	5,868	9.4
Materials manufacturing and mining	1,819	113	133	2,065	3.3
Media	364	21	42	427	.7
Oil and gas	1,095	21	51	1,167	1.9
Public exposure	2,783	52	1,055	3,890	6.2
Technology	579	3	8	590	.9
Transportation	1,418	242	890	2,550	4.1
Utilities	3,067	6	340	3,413	5.4
Other	509	8	—	517	.8
Total	$ 41,859	$ 16,048	$ 4,826	$ 62,733	100.0 %

December 31, 2016 dollars in millions	Commercial and industrial	Commercial real estate	Commercial lease financing	Total commercial loans	Percent of total
Industry classification:					
Agricultural	$ 844	$ 194	$ 151	$ 1,189	1.9 %
Automotive	2,139	491	74	2,704	4.4
Business products	1,243	152	31	1,426	2.3
Business services	2,648	179	303	3,130	5.1
Commercial real estate	4,759	11,235	2	15,996	25.8
Construction materials and contractors	1,282	307	79	1,668	2.7
Consumer discretionary	3,367	539	314	4,220	6.8
Consumer services	2,281	749	66	3,096	5.0
Equipment	1,582	107	87	1,776	2.9
Financial	3,864	95	296	4,255	6.9
Healthcare	3,487	2,577	526	6,590	10.6
Materials manufacturing and mining	2,743	276	212	3,231	5.2
Media	478	18	70	566	.9
Oil and gas	1,094	27	62	1,183	1.9

Public exposure	2,621	311	1,204	4,136	6.7
Technology	485	6	34	525	.8
Transportation	940	148	923	2,011	3.3
Utilities	3,441	26	251	3,718	6.0
Other	470	19	—	489	.8
Total	$ 39,768	$ 17,456	$ 4,685	$ 61,909	100.0 %

Commercial and industrial. Commercial and industrial loans are the largest component of our loan portfolio, representing 48% of our total loan portfolio at December 31, 2017, and 46% at December 31, 2016. This portfolio is approximately 83% variable rate and consists of loans originated in both Key Corporate and Community Bank to large corporate, middle market, and small business clients.

Commercial and industrial loans totaled $41.9 billion at December 31, 2017, an increase of $2.1 billion compared to December 31, 2016, driven by increases in the business products, commercial real estate, consumer services, and transportation industries, which combined, accounted for approximately 28% of the total portfolio mix at December 31, 2017.

Commercial real estate loans. Our commercial real estate lending business includes both mortgage and construction loans, and is conducted through two primary sources: our 15-state banking franchise, and KeyBank

Table of Contents

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. Approximately 70% of loans outstanding at December 31, 2017, were generated by our KeyBank Real Estate Capital line of business. Nonowner-occupied properties, generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties, represented 79% of total commercial real estate loans outstanding at December 31, 2017. Construction loans, which provide a stream of funding for properties not fully leased at origination to support debt service payments over the term of the contract or project, represented 12% of commercial real estate loans at year end.

At December 31, 2017, commercial real estate loans totaled $16.0 billion, comprised of $14.1 billion of mortgage loans and $1.9 billion of construction loans. Compared to December 31, 2016, this portfolio decreased $1.4 billion, largely the result of reductions in commercial mortgages, which declined $1.0 billion, reflecting significantly higher debt placements and paydowns in 2017. We continue to focus primarily on owners of completed and stabilized commercial real estate in accordance with our relationship strategy.

As shown in Figure 16, our commercial real estate loan portfolio includes various property types and geographic locations of the underlying collateral. These loans include commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As a result of the First Niagara acquisition, we have an increased concentration of commercial real estate loans in the Northeast region.

Figure 16. Commercial Real Estate Loans

	Geographic Region										
dollars in millions	West	Southwest	Central	Midwest	Southeast	Northeast	National	Total	Percent of Total	Construction	Commercial Mortgage
December 31, 2017											
Nonowner-occupied:											
Retail properties	$212	$ 165	$119	$214	$252	$850	$243	$2,055	12.8 %	$ 245	$ 1,810
Multifamily properties	402	182	662	508	984	2,091	101	4,930	30.7	1,145	3,785
Health facilities	167	—	143	197	279	950	159	1,895	11.8	118	1,777
Office buildings	204	12	102	125	192	1,078	22	1,735	10.8	116	1,619
Warehouses	68	25	21	104	72	329	78	697	4.3	27	670
Manufacturing facilities	7	—	5	4	16	73	64	169	1.1	3	166
Hotels/Motels	14	—	16	4	10	190	24	258	1.6	20	238
Residential properties	1	—	—	3	17	163	—	184	1.2	73	111
Land and development	23	—	5	2	3	69	—	102	.6	77	25
Other	48	—	25	33	2	364	152	624	3.9	7	617
Total nonowner-occupied	1,146	384	1,098	1,194	1,827	6,157	843	12,649	78.8	1,831	10,818
Owner-occupied	925	3	222	536	112	1,601	—	3,399	21.2	129	3,270
Total	$2,071	$ 387	$1,320	$1,730	$ 1,939	$ 7,758	$ 843	$16,048	100.0%	$ 1,960	$ 14,088
December 31, 2016											
Total	$2,032	$ 291	$1,508	$2,281	$ 2,304	$ 8,340	$ 700	$17,456		$ 2,345	$ 15,111
December 31, 2017											
Nonowner-occupied:											
Nonperforming loans	—	—	—	$4	$11	$6	—	$21	N/M	—	$21
Accruing loans past due 90 days or more	—	—	—	1	1	11	—	13	N/M	—	13
Accruing loans past due 30 through 89 days	—	—	—	—	1	26	—	27	N/M	$ 12	15

West – Alaska, California, Hawaii, Idaho, Montana, Oregon, Washington, and Wyoming
Arizona, Nevada, and New Mexico

Southwest –	
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

Loan modification and restructuring

We modify and extend certain commercial and consumer 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.

Table of Contents

Modifications are negotiated to achieve mutually agreeable terms that maximize loan credit quality while at the same time meeting our clients' financing needs. 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.

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. If commercial 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 loan determined to be a TDR. During 2017, we had $89 million of new TDR commercial loans compared to $37 million of new TDR commercial loans in 2016. Consumer loans modifications are handled centrally by our default management team. In addition to consumer modifications that result in a credit concession, we also classify consumer loans discharged in bankruptcy as a TDR. During 2017, we had $41 million of new TDR consumer loans compared to $34 million of new TDR consumer loans in 2016.

For more information on concession types for our commercial and consumer accruing and nonaccruing TDRs, see Note 6 ("Asset Quality").

Figure 17. TDRs by Accrual Status

December 31, in millions	2017	2016
Commercial TDRs by Accrual Status		
Nonaccruing	$98	$51
Accruing	13	16
Total Commercial TDRs	$111	$67
Consumer TDRs by Accrual Status		
Nonaccruing	$91	$90
Accruing	115	123
Total Consumer TDRs	$206	$213

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 TDR 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. 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 TDR loans have returned to accrual status and consistently performed under the restructured loan terms over the past year.

Additional information regarding TDRs is provided in Note 6 ("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. Extensions that qualify as TDRs are measured for impairment under the applicable accounting guidance.

Table of Contents

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 may be accounted for as performing loans. These loans may not be 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, 2017, 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 at December 31, 2017, totaled $23.7 billion, a decrease of $457 million, or 1.9%, from one year ago. The decrease in consumer loans was driven by continued declines in the home equity loan portfolio, largely the result of paydowns in home equity lines of credit, partly offset by growth in indirect auto lending.

Home equity loans are the largest component of our consumer loan portfolio, representing approximately 51% of consumer loans outstanding at year end. Approximately 99% of this portfolio at December 31, 2017, was originated by our Key Community Bank within our 15-state footprint.

As shown in Figure 12, we held the first lien position for approximately 60% of the Key Community Bank home equity portfolio at December 31, 2017, and 57% at December 31, 2016. For 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 ratios. 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."

Loan sales

As shown in Figure 18, which summarizes our loan sales for 2017 and 2016, during 2017, we sold $12.0 billion of our loans. Commercial real estate loan sales in 2017 increased $3.3 billion from 2016, due to organic growth and increased collaboration within our lines of business. Most of these sales came from the held-for-sale portfolio;

however, $183 million of these loan sales related to the held-to-maturity portfolio in 2017.

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;
- the cost of alternative funding sources;
- the level of credit risk;

Table of Contents

- capital requirements; and
- market conditions and pricing.

Figure 18. Loans Sold (Including Loans Held for Sale)

in millions	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2017					
Fourth quarter	$ 88	$ 3,394	$ 81	$ 275	$3,838
Third quarter	337	2,534	93	279	3,243
Second quarter	205	2,097	14	230	2,546
First quarter	49	2,011	83	194	2,337
Total	$ 679	$ 10,036	$ 271	$ 978	$11,964
2016					
Fourth quarter	$ 83	$ 2,521	$ 93	$ 232	$2,929
Third quarter	105	1,791	52	260	2,208
Second quarter	83	1,518	121	111	1,833
First quarter	46	925	88	89	1,148
Total	$ 317	$ 6,755	$ 354	$ 692	$8,118

Figure 19 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 19. Loans Administered or Serviced

December 31, in millions	2017	2016	2015	2014	2013
Commercial real estate loans	$238,718	$218,135	$211,274	$191,407	$177,731
Residential mortgage	4,582	4,198	—	—	—
Education loans	932	1,122	1,339	1,589	—
Commercial lease financing	862	899	932	722	717
Commercial loans	488	418	335	344	327
Total	$245,582	$224,772	$213,880	$194,062	$178,775

In the event of default by a borrower, we are subject to recourse with respect to approximately $3.3 billion of the $245.6 billion of loans administered or serviced at December 31, 2017. Additional information about this recourse arrangement is included in Note 22 ("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 "mortgage servicing fees") 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 loans. Additional information about our mortgage servicing assets is included in Note 10 ("Mortgage Servicing Assets").

Maturities and sensitivity of certain loans to changes in interest rates

Figure 20 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, 2017, approximately 31% of these outstanding loans were

scheduled to mature within one year.

Figure 20. Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates
December 31, 2017

in millions	Within One Year	One - Five Years	Over Five Years	Total
Commercial and industrial	$ 12,742	$ 22,671	$ 6,446	$41,859
Real estate — construction	848	884	228	1,960
Total	$ 13,590	$ 23,555	$ 6,674	$43,819
Loans with floating or adjustable interest rates [(a)]		$ 19,886	$ 3,926	$23,812
Loans with predetermined interest rates [(b)]		3,669	2,748	6,417
Total		$ 23,555	$ 6,674	$30,229

(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.

Table of Contents

Securities

Our securities portfolio totaled $30.0 billion at December 31, 2017, compared to $30.4 billion at December 31, 2016. Available-for-sale securities were $18.1 billion at December 31, 2017, compared to $20.2 billion at December 31, 2016. Held-to-maturity securities were $11.8 billion at December 31, 2017, compared to $10.2 billion at December 31, 2016.

As shown in Figure 21, 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 7 ("Fair Value Measurements") under the heading "Qualitative Disclosures of Valuation Techniques," and Note 8 ("Securities").

Figure 21. Mortgage-Backed Securities by Issuer

December 31, in millions	2017	2016
FHLMC	$5,897	$6,415
FNMA	10,328	9,879
GNMA	13,543	13,920
Total[(a)]	$29,768	$30,214

(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 provide liquidity value under regulatory requirements.

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.

Our investing activities continue 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 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 high quality liquid assets, including GNMA-related securities, is related to liquidity management strategies to satisfy regulatory requirements.

Figure 22 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 8 ("Securities").

Table of Contents

Figure 22. Securities Available for Sale
dollars in millions