KEYCORP /NEW/
Form 10-Q
November 01, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2017

Commission File Number 001-11302

Exact name of registrant as specified in its charter:

Ohio	34-6542451
State or other jurisdiction of incorporation or organization:	I.R.S. 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:

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Shares with a par value of $1 each	1,075,399,655 shares
Title of class	Outstanding at October 30, 2017

Table of Contents

KEYCORP
TABLE OF CONTENTS
PART I. FINANCIAL INFORMATION

		Page Number
Item 1.	Financial Statements	57
	Consolidated Balance Sheets	57
	Consolidated Statements of Income	58
	Consolidated Statements of Comprehensive Income	59
	Consolidated Statements of Changes in Equity	60
	Consolidated Statements of Cash Flows	61
	Notes to Consolidated Financial Statements (Unaudited)	62
	Note 1. Basis of Presentation and Accounting Policies	62
	Note 2. Business Combination	67
	Note 3. Earnings Per Common Share	70
	Note 4. Loans and Loans Held for Sale	71
	Note 5. Asset Quality	72
	Note 6. Fair Value Measurements	84
	Note 7. Securities	97
	Note 8. Derivatives and Hedging Activities	100
	Note 9. Mortgage Servicing Assets	109
	Note 10. Variable Interest Entities	111
	Note 11. Income Taxes	113
	Note 12. Acquisition, Divestiture, and Discontinued Operations	114
	Note 13. Securities Financing Activities	118
	Note 14. Employee Benefits	119
	Note 15. Trust Preferred Securities Issued by Unconsolidated Subsidiaries	120
	Note 16. Contingent Liabilities and Guarantees	121
	Note 17. Accumulated Other Comprehensive Income	124
	Note 18. Shareholders’ Equity	126
	Note 19. Line of Business Results	127
	Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	131

Table of Contents

Item 2.	Management's Discussion & Analysis of Financial Condition & Results of Operations	4
	Introduction	4
	Terminology	4
	Forward-looking statements	6
	Selected financial data	7
	Economic overview	8
	Long-term financial targets	9
	Strategic developments	9
	Demographics	10
	Supervision and regulation	10
	Highlights of Our Performance	15
	Financial performance	15
	Results of Operations	19
	Net interest income	19
	Noninterest income	23
	Noninterest expense	25
	Income taxes	27
	Line of Business Results	27
	Key Community Bank summary of operations	27
	Key Corporate Bank summary of operations	29
	Other Segments	30
	Financial Condition	31
	Loans and loans held for sale	31
	Securities	35
	Other investments	37
	Deposits and other sources of funds	37
	Capital	38
	Risk Management	40
	Overview	40
	Market risk management	41
	Liquidity risk management	47
	Credit risk management	48
	Operational and compliance risk management	54
	Critical Accounting Policies and Estimates	55
	European Sovereign and Non-Sovereign Debt Exposures	56
Item 3.	Quantitative and Qualitative Disclosure about Market Risk	132
Item 4.	Controls and Procedures	132
	PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings	132
Item 1A.	Risk Factors	132
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	132
Item 6.	Exhibits	133
	Signature	134

Table of Contents

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion & Analysis of Financial Condition & Results of Operations

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly periods ended September 30, 2017, and September 30, 2016. Some tables may 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 and notes that we refer to are presented in the Table of Contents.

References to our "2016 Form 10-K" refer to our Form 10-K for the year ended December 31, 2016, which has been filed with the SEC and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

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 to KeyCorp's subsidiary bank, KeyBank National Association.

Throughout the following discussion, industry-specific terms are used as defined below:

- We use the phrase continuing operations in this document to mean all of our businesses other than the education lending business and Austin. The education lending business and Austin have been accounted for as discontinued operations since 2009.
- 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" that begins on page 8 of our 2016 Form 10-K, 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 evaluate 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" provides more information on total capital, Tier 1 capital, and the Regulatory Capital Rules, including Common Equity Tier 1, and describes how these measures are calculated.

Table of Contents

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

AICPA: American Institute of Certified Public Accountants.
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.
Austin: Austin Capital Management, Ltd.
BHCs: Bank holding companies.
Board: KeyCorp Board of Directors.
CCAR: Comprehensive Capital Analysis and Review.
CMBS: Commercial mortgage-backed securities.
CME: Chicago Mercantile Exchange.
CMO: Collateralized mortgage obligation.
Common Shares: KeyCorp common shares, $1 par value.
DIF: Deposit Insurance Fund of the FDIC.
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.
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
First Niagara: First Niagara Financial Group, Inc. (NASDAQ: FNFG).
FNMA: Federal National Mortgage Association, or Fannie Mae.
FSOC: Financial Stability Oversight Council.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association, or Ginnie Mae.
HelloWallet: HelloWallet, LLC.
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.
KREEC: Key Real Estate Equity Capital, Inc.
LCR: Liquidity coverage ratio.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
LTV: Loan-to-value.
Moody's: Moody's Investor Services, Inc.
MRM: Market Risk Management group.
N/A: Not applicable.
NASDAQ: The NASDAQ Stock Market LLC.
NAV: Net asset value.
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.
PCI: Purchased credit impaired.
S&P: Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SEC: U.S. Securities and 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.
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.
VIE: Variable interest entity.

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 and increasing regulation of the U.S. financial services industry;
- operational or risk management failures by us or critical third parties;
- changes in accounting policies, standards, and interpretations;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- negative outcomes from claims or litigation;
- 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;
- 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;
- our ability to attract and retain talented executives and employees and to manage our reputational risks;
- our ability to timely and effectively implement our strategic initiatives;
- increased competitive pressure due to industry consolidation;
- 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-Q and our subsequent reports on Forms 8-K, 10-Q, and 10-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

Selected financial data

Our financial performance for each of the last five quarters is summarized in Figure 1.

Figure 1. Selected Financial Data

	2017			2016		Nine months ended September 30,	
dollars in millions, except per share amounts	Third	Second	First	Fourth	Third	2017	2016
FOR THE PERIOD							
Interest income	$1,109	$1,117	$1,050	$1,062	$890	$3,276	$2,257
Interest expense	161	144	132	124	110	437	276
Net interest income	948	973	918	938	780	2,839	1,981
Provision for credit losses	51	66	63	66	59	180	200
Noninterest income	592	653	577	618	549	1,822	1,453
Noninterest expense	992	995	1,013	1,220	1,082	3,000	2,536
Income (loss) from continuing operations before income taxes	497	565	419	270	188	1,481	698
Income (loss) from continuing operations attributable to Key	363	407	324	233	171	1,094	557
Income (loss) from discontinued operations, net of taxes [a]	1	5	—	(4)	1	6	5
Net income (loss) attributable to Key	364	412	324	229	172	1,100	562
Income (loss) from continuing operations attributable to Key common shareholders	349	393	296	213	165	1,038	540
Income (loss) from discontinued operations, net of taxes [a]	1	5	—	(4)	1	6	5
Net income (loss) attributable to Key common shareholders	350	398	296	209	166	1,044	545
PER COMMON SHARE							
Income (loss) from continuing operations attributable to Key common shareholders	$.32	$.36	$.28	$.20	$.17	$.96	$.61
Income (loss) from discontinued operations, net of taxes [a]	—	—	—	—	—	.01	.01
Net income (loss) attributable to Key common shareholders [b]	.32	.37	.28	.20	.17	.97	.62
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	.32	.36	.27	.20	.16	.95	.60
Income (loss) from discontinued operations, net of taxes — assuming dilution [a]	—	—	—	—	—	.01	.01
Net income (loss) attributable to Key common shareholders — assuming dilution [b]	.32	.36	.27	.19	.17	.96	.61
Cash dividends paid	.095	.095	.085	.085	.085	.275	.245

Book value at period end	13.18	13.02	12.71	12.58	12.78	13.18	12.78
Tangible book value at period end	10.52	10.40	10.21	9.99	10.14	10.52	10.14
Market price:							
High	19.37	19.10	19.53	18.62	12.64	19.37	13.37
Low	16.47	16.91	16.54	12.00	10.38	16.47	9.88
Close	18.82	18.74	17.78	18.27	12.17	18.82	12.17
Weighted-average common shares outstanding (000)	1,073,390	1,076,203	1,068,609	1,067,771	982,080	1,075,296	880,824
Weighted-average common shares and potential common shares outstanding (000) [c]	1,088,841	1,093,039	1,086,540	1,083,717	994,660	1,091,655	889,789
AT PERIOD END							
Loans	$86,492	$86,503	$86,125	$86,038	$85,528	$86,492	$85,528
Earning assets	122,625	121,243	120,261	121,966	121,089	122,625	121,089
Total assets	136,733	135,824	134,476	136,453	135,805	136,733	135,805
Deposits	103,446	102,821	103,982	104,087	104,185	103,446	104,185
Long-term debt	15,100	13,261	12,324	12,384	12,622	15,100	12,622
Key common shareholders' equity	14,224	14,228	13,951	13,575	13,831	14,224	13,831
Key shareholders' equity	15,249	15,253	14,976	15,240	14,996	15,249	14,996
PERFORMANCE RATIOS — FROM CONTINUING OPERATIONS							
Return on average total assets	1.07 %	1.23 %	.99 %	.69 %	.55 %	1.10 %	.71 %
Return on average common equity	9.74	11.12	8.76	6.22	5.09	9.89	6.28
Return on average tangible common equity [d]	12.21	13.80	10.98	7.88	6.16	12.36	7.21
Net interest margin (TE)	3.15	3.30	3.13	3.12	2.85	3.19	2.84
Cash efficiency ratio [d]	62.2	59.3	65.8	76.2	80.0	62.4	72.5
PERFORMANCE RATIOS — FROM CONSOLIDATED OPERATIONS							
Return on average total assets	1.06 %	1.23 %	.98 %	.67 %	.55 %	1.09 %	.70 %
Return on average common equity	9.77	11.26	8.76	6.10	5.12	9.95	6.34
Return on average tangible common equity [d]	12.25	13.98	10.98	7.73	6.20	12.43	7.27
Net interest margin (TE)	3.13	3.28	3.11	3.09	2.83	3.17	2.81
Loan-to-deposit [e]	86.2	87.2	85.6	85.2	84.7	86.2	84.7
CAPITAL RATIOS AT PERIOD END							
Key shareholders' equity to assets	11.15 %	11.23 %	11.14 %	11.17 %	11.04 %	11.15 %	11.04 %
Key common shareholders' equity to assets	10.40	10.48	10.37	9.95	10.18	10.40	10.18
Tangible common equity to tangible assets [d]	8.49	8.56	8.51	8.09	8.27	8.49	8.27
Common Equity Tier 1	10.26	9.91	9.91	9.54	9.56	10.26	9.56
Tier 1 risk-based capital	11.11	10.73	10.74	10.89	10.53	11.11	10.53
Total risk-based capital	13.09	12.64	12.69	12.85	12.63	13.09	12.63
Leverage	9.83	9.95	9.81	9.90	10.22	9.83	10.22
TRUST ASSETS							
Assets under management	$38,660	$37,613	$37,417	$36,592	$36,752	$38,660	$36,752
OTHER DATA							
Average full-time-equivalent employees	18,548	18,344	18,386	18,849	17,079	18,427	14,642
Branches	1,208	1,210	1,216	1,217	1,322	1,208	1,322

(a)

In April 2009, management decided to wind down the operations of Austin Capital Management, Ltd., a subsidiary that specialized in managing hedge fund
investments for institutional customers. In September 2009, management decided to discontinue the education lending business conducted through Key Education

Table of Contents

Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 12 ("Acquisition, Divestiture, and Discontinued Operations").

(b) EPS may not foot due to rounding.

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

(d) See Figure 6 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.

(e) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits.

Economic Overview

The initial estimate of third quarter 2017 GDP came in at 3.0%, building on the strong growth experienced during the second quarter of 2017 of 3.1%. Personal consumption expenditures, the economy's largest component, contributed 1.6% to growth in the third quarter, somewhat behind 2.2% contributed in the second quarter of 2017 but still ahead of the1.3% contributed in the first quarter of 2017. Inventories had a sizable impact on third quarter 2017 growth, accounting for .7%, possibly indicating that businesses are anticipating increased demand in the near future. A shrinking trade deficit also helped to lift the third quarter 2017 figure, adding .4% to the total. Unfortunately, many forecasts are expecting this third quarter 2017 GDP figure to be revised lower in coming months, once economists are able to more accurately assess the economic damage caused by hurricanes Harvey, Irma, and Maria.

The International Monetary Fund estimates that global growth is expected to rise from 3.1% in 2016 to 3.6% in 2017 and 3.7% in 2018 with broad-based upward revisions in the European area, Japan, emerging markets in Asia, emerging markets in Europe, and Russia more than offsetting downward revisions for the United States and the United Kingdom.

Oil prices have fallen since the beginning of the year to $52 per barrel, but are well above the lows in early 2016 when prices dropped to $25 per barrel. Although inventories remain elevated, recent declines may help clear the way for stronger appreciation in the coming quarters and help support America's struggling energy industry.

The stock market continues to reach new records, with the S&P 500 equity index up 12.5% since the end of 2016. A general rally has occurred following the November 2016 elections, and based on expectations for growth-friendly economic policies from the new U.S. presidential administration.

274,000 new jobs were added in the U.S. during the third quarter of 2017. This was down from the second quarter of 2017, which saw gains of 562,000. Hurricanes Harvey and Irma distorted the employment situation in September when payroll employment declined by 33,000 jobs. Leisure and hospitality created most of the drag, declining by 111,000 jobs. The unemployment rate declined to 4.2%, but this was likely because of the inability to access all of the sample households in storm affected areas. Based on the experience of previous hurricanes, the September 2017 numbers are likely to undergo dramatic revisions. Still, the participation rate increased to 63.1%, a welcome development. This was the first time it rose above 63% since early 2014. The number of unemployed declined, the employment-to-population ratio increased, the number of discouraged workers fell, and fewer workers were employed part time involuntarily. Year-over-year earnings growth came in at 2.9%, above the recent range of around 2.5%. However, the boost may be attributed in part to an outsized decline in the lowest-paying jobs.

Headline inflation was up by 2.2% year over year at the end of the third quarter of 2017, slightly above the Federal Reserve's target of 2.0%. However core inflation, excluding food and energy, was subdued year over year, at 1.7%.

Thanks to the solid economy and still low interest rates, the housing market generally benefited in the third quarter of 2017. New home sales were down 2.1% compared to the third quarter of 2016, while existing home sales were slightly up .4% compared to third quarter 2016 levels. However, prices are up uniformly, with average new home prices up 3.4% from year ago levels, and existing home prices up 5.1%. Single family housing starts also posted respectable gains in the third quarter of 2017, up 12.7%, from the third quarter of 2016. Multi-family construction was down 5.2%.

The Federal Open Market Committee left the federal funds rate unchanged in September 2017 at 1% to 1.25%. The minutes from the September meeting showed a debate on the weakness in inflation, and whether it can be attributed to transitory or more persistent factors. The Federal Reserve (like many economists) is unsure why inflationary pressures haven't developed as slack in the broader economy has diminished. This uncertainty suggests that a December 2017 rate hike is not a sure thing, but most believe it is still likely. The minutes also discussed the economic cost of the recent hurricanes and how it will likely distort the incoming data on growth and

Table of Contents

inflation. However, the Federal Reserve doesn’t expect the hurricanes to alter the course of the economy over the medium term. The 10-year U.S. Treasury yield stood at 2.33% at the end of the third quarter of 2017, which was only two basis points below the prior quarter.

Long-term financial targets

Our long-term financial targets are as follows:

- Generate positive operating leverage and a cash efficiency ratio of less than 60%;
- Maintain a moderate risk profile by targeting a net loan charge-offs to average loans ratio in the range of .40% to .60%; and
- Achieve a return on tangible common equity ratio in the range of 13% to 15%.

Figure 2 shows the evaluation of our long-term financial targets for the three months and nine months ended September 30, 2017.

Figure 2. Evaluation of Our Long-Term Targets

	Key Metrics [a]	3Q17		YTD 2017		Targets
Positive operating leverage	Cash efficiency ratio [b]	62.2	%	62.4	%	< 60%
	Cash efficiency ratio excluding notable items [b]	59.7	%	59.8	%	
Moderate Risk Profile	Net loan charge-offs to average loans	.15	%	.24	%	.40 - .60%
Financial Returns	Return on average tangible common equity [b]	12.21	%	12.36	%	13.00 - 15.00%
	Return on average tangible common equity excluding notable items [b]	13.19	%	12.98	%	

(a) Calculated from continuing operations, unless otherwise noted.
(b) Non-GAAP measure; see Figure 6 entitled “GAAP to Non-GAAP Reconciliations” for reconciliation.

Strategic developments

Our actions and results during the first nine months of 2017 supported our corporate strategy described in the “Introduction” section under the “Corporate strategy” heading on page 35 of our 2016 Form 10-K.

- We continued to generate positive operating leverage versus the prior year and our cash efficiency ratio improved to 62.4%, or 59.8%, excluding notable items. Revenue growth was driven by net interest income and fee-based businesses. Cards and payments had a record quarter, up 13.6% from the year-ago quarter, reflecting the investments we have made in the businesses, our recent merchant services acquisition and some of our early successes with First Niagara clients. Expenses remain well managed, with our quarterly results reflecting our recent acquisitions of HelloWallet and Key Merchant Services, LLC, as well as seasonal trends.
- Early in the fourth quarter of 2017, we completed the acquisition of Cain Brothers, a leading healthcare-focused merger and acquisitions investment bank. The move will significantly expand our existing healthcare vertical and further enhances our ability to serve our clients with distinctive expertise and capabilities.
- Net loan charge-offs were .24% of average loans for the first nine months of 2017, down from .27% for the same period one-year ago and below our targeted range. Total net loan charge-offs increased during the first nine months of 2017 compared to the year-ago period. Total loans charged off increased in our commercial and industrial loan portfolio and our auto loan portfolio which is included in our consumer indirect loan portfolio. Partially offsetting these increases in loan charge-offs were increases in recoveries in our commercial and industrial loan portfolio, driven by a large recovery that occurred during the third quarter of 2017.
- Capital management remains a priority for 2017. As previously reported, share repurchases of up to $800 million were included in the 2017 capital plan, which is effective through the second quarter of 2018. We completed $277

million of Common Share repurchases, including $271 million of Common Share repurchases in the open market and $6 million of Common Share repurchases related to employee equity compensation programs in the third quarter of 2017 under this authorization. Over the past five years, we have repurchased over $2 billion in common shares.

- Consistent with our 2016 capital plan, the Board declared a quarterly dividend of $.095 per Common Share for the third quarter of 2017. Potential dividend increases were also included in our 2017 capital plan. In the fourth quarter of 2017, the Board plans to consider a potential increase in our quarterly common share dividend, up to $.105 per share, consistent with the 2017 capital plan. An additional potential increase in the quarterly common share dividend, up to $.12 per share, is expected to be considered by the Board for the second quarter of 2018.

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, 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 motor vehicle retail installment sales contracts relating to new or used automobiles and light and medium-duty trucks via a network of dealers who regularly originate these third party installment sales contracts. These products and services are provided primarily 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 19 (“Line of Business Results”).

Supervision and regulation

The following discussion provides a summary of recent regulatory developments and should be read in conjunction with the disclosure included in our 2016 Form 10-K under the heading “Supervision and Regulation” in Item 1. Business and under the heading “II. Compliance Risk” in Item 1A. Risk Factors.

Regulatory capital requirements

In July 2013, the U.S. banking agencies adopted a final rule to implement the Basel III international capital framework (“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 Basel III, 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 Tier 1 Common Equity Capital ratio requirement of 4.5% and capital buffers to address procyclicality concerns and absorb losses during periods of financial stress, 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 nor to KeyBank. Accordingly, for purposes of the Regulatory Capital Rules, KeyCorp and KeyBank are treated as “standardized approach” banking organizations.

The Basel III capital framework and the U.S. implementation of the Basel III capital framework are discussed in more detail in Item 1. Business of our 2016 Form 10-K under the heading “Supervision and Regulation - Regulatory capital requirements.”

Under the Regulatory Capital Rules, standardized approach banking organizations are required to meet the minimum capital and leverage ratios set forth in Figure 3 below. At September 30, 2017, Key had an estimated Common Equity Tier 1 Capital Ratio of 10.15% under the fully phased-in Regulatory Capital Rules. Also at September 30, 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 Figure 3.

Table of Contents

Figure 3. Pro Forma Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In Regulatory Capital Rules

Ratios (including capital conservation buffer)	Key September 30, 2017 Pro forma		Minimum January 1, 2017		Phase-in Period	Minimum January 1, 2019	
Common Equity Tier 1 [a]	10.15	%	4.5	%	None	4.5	%
Capital conservation buffer [b]			—		1/1/16-1/1/19	2.5	
Common Equity Tier 1 + Capital conservation buffer			4.5		1/1/16-1/1/19	7.0	
Tier 1 Capital	11.00	%	6.0		None	6.0	
Tier 1 Capital + Capital conservation buffer			6.0		1/1/16-1/1/19	8.5	
Total Capital	13.00	%	8.0		None	8.0	
Total Capital + Capital conservation buffer			8.0		1/1/16-1/1/19	10.5	
Leverage [c]	9.79	%	4.0		None	4.0	

(a) See Figure 6 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 becomes effective January 1, 2018.

Revised prompt corrective action framework

The federal prompt corrective action (“PCA”) framework under the FDIA groups FDIC-insured depository institutions into one of five capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized,” for purposes of determining whether a bank should be required to establish a capital restoration plan and become subject to limitations on the bank’s activities, capital actions, and payment of management fees.

In addition to implementing Basel III in the United States, the Regulatory Capital Rules also revised the capital category thresholds under the PCA framework for FDIC-insured depository institutions such as KeyBank. The revised PCA framework table in Figure 4 identifies the capital category thresholds for a “well capitalized” and an “adequately capitalized” institution under the Regulatory Capital Rules.

Figure 4. "Well Capitalized" and "Adequately Capitalized" Capital Category Ratios under Revised PCA 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 becomes effective January 1, 2018.

We believe that, as of September 30, 2017, KeyBank (consolidated) satisfied the risk-based and leverage capital requirements to be considered "well capitalized" for purposes of the revised PCA framework. However, investors should not regard this determination as a representation of the overall financial condition or prospects of KeyBank because the PCA framework is intended to serve a limited supervisory function. Moreover, it is important to note that the PCA framework does not apply to BHCs, like KeyCorp.

Recent developments

On September 27, 2017, the federal banking agencies issued a joint proposal to simplify 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 subject to the multi-year transition period for the Regulatory Capital Rules, which ends on December 31, 2018. That proposal would alleviate the burden that could result from the

Table of Contents

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 standardized approach for credit risk under the Regulatory Capital Rules by:

- Replacing the definition for high volatility commercial real estate exposures with a simpler definition called "high volatility acquisition, development, or construction" ("HVADC") exposures. The Simplification Proposal would require a banking organization to assign a 130 percent risk weight to HVADC exposures.
- Simplifying the threshold 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. The Simplification Proposal also would revise the risk-weight treatment for investments in the capital of unconsolidated financial institutions.
- Simplifying the limitations on the amount of a third-party minority interest in a consolidated subsidiary that is includable in regulatory capital.

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 are due December 26, 2017.

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 by raising the materiality thresholds for specific portfolio reporting requirements.

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 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 monthly average 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 is effective for the 2017 CCAR cycle.

On June 9, 2017, the Federal Reserve released a proposal and request for comment on certain information collection activities conducted under the series FR Y-14 schedules and reports that are used in connection with the CCAR program. As they would pertain to Key, the proposed revisions to the FR Y-14A and FR Y-14Q generally consist of modifications to reported items and instructions that would clarify the intended reporting of those items, and seek to further align reported items with the methodology, standards, and treatment in other regulatory reports or with the FR Y-14 schedules. In addition, the Federal Reserve has proposed to eliminate two schedules from the FR Y-14A to reduce the burden, but also to add a new sub-schedule to supplement the existing information collection around business plan change information. Other aspects of the proposal that do not pertain to Key would require the U.S. intermediate holding companies of foreign banks to apply the global market shock adjustment to certain reporting schedules under the FR Y-14A and FR Y-14Q.

Table of Contents

The comment period for the proposed rule ended on August 8, 2017. If the proposal is adopted in its final form, it is expected to have a neutral-to-low impact on Key's reporting and compliance obligations.

Liquidity requirements

In October 2014, the federal banking agencies published a final rule to implement the Basel III liquidity coverage ratio ("Basel III LCR") for U.S. banking organizations (the "Liquidity Coverage Rules") that establishes 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 was required to satisfy a minimum Modified LCR requirement of 100% by January 1, 2017. At September 30, 2017, Key'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.

Net stable funding ratio

The federal banking agencies commenced the U.S. implementation of the Basel III net stable funding ratio ("NSFR") in April and May 2016, with the release of a proposed rule to implement a 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 proposed rule would be effective on January 1, 2018. 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.

Resolution and recovery planning

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 efficiently 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. KeyCorp and KeyBank were not required to submit resolution plans for 2016 because the FDIC and Federal Reserve deferred such requirement until December 2017. By letter dated March 24, 2017, KeyCorp received guidance from the Federal Reserve and the FDIC regarding the information requirements for certain aspects of KeyCorp's December 2017 resolution plan submission. That letter is publicly available on the Federal Reserve's website, https://www.federalreserve.gov/newsevents/pressreleases/bcreg20170324a.htm.

The Federal Reserve and FDIC make available on their websites the public sections of resolution plans for the companies, including KeyCorp and KeyBank, that submitted plans. 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 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

13

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 prior to January 1, 2017, it must be in compliance with the guidelines not later than January 1, 2018.

Deposit insurance and assessments

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). At June 30, 2017, the DIF reserve ratio was 1.24%.

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) in order to facilitate rapid payment of insured deposits to customers if the institutions 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 chief executive officer, 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.

Single counterparty credit limits

In March 2016, the Federal Reserve issued an NPR proposing to establish single counterparty credit limits for BHCs with total consolidated assets of $50 billion or more. 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. Globally, 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.

Supervision and governance

On August 3, 2017, the Federal Reserve released a proposal to establish guidance regarding supervisory expectations for the boards of directors of banking organizations with total consolidated assets of $50 billion or more, including KeyCorp. The proposal identifies the attributes of effective boards of directors that would be used for examiner evaluation of an organization's governance and controls. The proposal also clarifies that for all organizations 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. Comments on the proposal are due November 30, 2017.

In a separate release, the Federal Reserve published a notice of proposed rulemaking to align its supervisory rating system for large financial institutions (including KeyCorp) with the post-crisis supervisory programs for these firms. The proposed rating system would only apply to large financial institutions, including KeyCorp, and would evaluate and assign ratings to large financial institutions based on three components: capital planning and positions, liquidity risk management and positions, and governance and controls. It is difficult to estimate the potential impact of the proposal on Key because the extent of the impact depends on the finalization of the proposal regarding supervisory

Table of Contents

expectations for boards of directors, and a forthcoming proposal regarding supervisory expectations relating to a firm's management of core business lines and independent risk management and controls. Moreover, implementation of the proposed rating system could involve considerable examiner discretion. Comments are due on the proposed rule by November 30, 2017.

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 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 must be in place by January 1, 2018, although on August 31, 2017, the Department of Labor requested comments on a proposal to delay this date until July 1, 2019. The Department of Labor also requested comments on and will continue to review whether to modify, further delay, or rescind these rules in whole or in part.

Highlights of Our Performance

Financial performance

For the third quarter of 2017, we announced net income from continuing operations attributable to Key common shareholders of $349 million, or $.32 per common share. Our third quarter of 2017 results compare to net income from continuing operations attributable to Key common shareholders of $165 million, or .16 per common share, for the third quarter of 2016. During the third quarter of 2017, our results included $36 million of merger-related charges and a $5 million merchant services gain adjustment, resulting in a pre-tax net impact of $41 million, or $.03 per common share.

Third quarter 2017 net interest income included $48 million of purchase accounting accretion related to the acquisition of First Niagara.

Our TE net interest income was $962 million for the third quarter of 2017, and the net interest margin was 3.15%, compared to TE net interest income of $788 million and a net interest margin of 2.85% for the third quarter of 2016, reflecting the benefit from the First Niagara acquisition, including purchase accounting accretion, as well as higher earning asset yields and balances. Excluding purchase accounting accretion, taxable-equivalent net interest income increased $145 million from the third quarter of 2016. For the full year of 2017, we expect net interest income to be in the range of $3.8 billion to $3.9 billion. Our outlook does not include any additional rate increases in 2017.

Our noninterest income was $592 million for the third quarter of 2017, compared to $549 million for the year-ago quarter. Growth was largely driven by a full-quarter impact of the First Niagara acquisition, as well as ongoing momentum in our core businesses. Broad-based growth across many fee income categories more than offset a decline in investment banking and debt placement fees, related to strong market conditions in the year-ago period. For the full year of 2017, we expect noninterest income to be in the range of $2.35 billion to $2.45 billion.

Our noninterest expense was $992 million for the third quarter of 2017, which included $36 million of merger-related charges. Merger-related charges for the quarter were made up of $25 million of personnel expense and $11 million of non-personnel expense, mostly reflected in marketing and computer processing expense. During the third quarter of 2016, we incurred $189 million of merger-related charges.

Excluding merger-related charges, noninterest expense was $63 million higher than the third quarter of last year. The increase from the prior year, reflected in both personnel and non-personnel expense, was primarily driven by a full-quarter impact of the First Niagara acquisition, as well as ongoing business investments and recent acquisitions, partially offset by merger cost savings. Professional fees were also elevated due to several short-term initiatives.

Table of Contents

While our recent acquisitions of HelloWallet and Key Merchant Services, LLC will be accretive over time, together they added $8 million of expense for the third quarter of 2017. For the full year of 2017, we expect noninterest expense excluding merger-related charges to be in the range of $3.7 billion to $3.8 billion. Included within this range is approximately $20 million in added expense from Cain Brothers, which closed early in the fourth quarter of 2017, as well as expenses related to HelloWallet and Key Merchant Services, LLC.

Average loans were $86.8 billion for the third quarter of 2017, an increase of $9.1 billion compared to the third quarter of 2016, primarily reflecting a full-quarter impact of the First Niagara acquisition, as well as growth in commercial and industrial loans, which was broad-based and spread across Key's commercial lines of business. We anticipate average loans to be in the range of $87 billion to $87.5 billion for the fourth quarter of 2017.

Average deposits totaled $103.1 billion for the third quarter of 2017, an increase of $8.2 billion compared to the year-ago quarter, primarily reflecting a full-quarter impact of the First Niagara acquisition, and core retail and commercial deposit growth. Our consolidated loan-to-deposit ratio was 86.2% at September 30, 2017, compared to 84.7% at September 30, 2016. We anticipate average deposits to be in the range of $102.5 billion to $103 billion for the fiscal year 2017.

Our provision for credit losses was $51 million for the third quarter of 2017, compared to $59 million for the third quarter of 2016. The third quarter 2017 provision reflects a large recovery in the commercial and industrial portfolio. Our allowance for loan and lease losses was $880 million, or 1.02% of total period-end loans, at September 30, 2017, compared to 1.01% at September 30, 2016. For the remainder of 2017, we expect the provision for credit losses to slightly exceed net loan charge-offs to provide for loan growth.

Net loan charge-offs for the third quarter of 2017 totaled $32 million, or .15% of average total loans, compared to $44 million, or .23%, for the third quarter of 2016. For the remainder of 2017, we expect net loan charge-offs to average loans to remain below our targeted range of 40 to 60 basis points.

At September 30, 2017, our nonperforming loans totaled $517 million, which represented .60% of period-end portfolio loans, compared to $723 million, or 0.85% of period-end portfolio loans, at September 30, 2016. Nonperforming assets at September 30, 2017, totaled $556 million and represented .64% of period-end portfolio loans and OREO and other nonperforming assets, compared to $760 million, or .89% of period-end portfolio loans and OREO and other nonperforming assets, at September 30, 2016.

Our capital ratios remain strong. Our tangible common equity and Tier 1 risk-based capital ratios at September 30, 2017, are 8.49% and 11.11%, respectively, compared to 8.27% and 10.53%, respectively, at September 30, 2016. In addition, our Common Equity Tier 1 ratio is 10.26% at September 30, 2017, compared to 9.56% at September 30, 2016. Capital levels in the third quarter of 2017 benefited from a change in our methodology related to risk weightings for multipurpose facilities, specifically commitments that can also be used for letters of credit.

We continue to return capital to our shareholders by repurchasing Common Shares and through our quarterly common share dividend. In the third quarter of 2017, we completed $277 million of Common Share repurchases, including $271 million of common share repurchases in the open market and $6 million of Common Share repurchases related to employee equity compensation programs, and paid a cash dividend of $.095 per Common Share, under our 2017 capital plan authorization.

Figure 5 shows our continuing and discontinued operating results for the current, past, and year-ago quarters. Our financial performance for each of the past five quarters is summarized in Figure 1.

Table of Contents

Figure 5. Results of Operations

	Three months ended			Nine months ended	
in millions, except per share amounts	9/30/2017	6/30/2017	9/30/2016	9/30/2017	9/30/2016
Summary of operations					
Income (loss) from continuing operations attributable to Key	$363	$ 407	$ 171	$1,094	$ 557
Income (loss) from discontinued operations, net of taxes [a]	1	5	1	6	5
Net income (loss) attributable to Key	$364	$ 412	$ 172	$1,100	$ 562
Income (loss) from continuing operations attributable to Key	$363	$ 407	$ 171	$1,094	$ 557
Less: Dividends on Preferred Stock	14	14	6	56	17
Income (loss) from continuing operations attributable to Key common shareholders	349	393	165	1,038	540
Income (loss) from discontinued operations, net of taxes [a]	1	5	1	6	5
Net income (loss) attributable to Key common shareholders	$350	$ 398	$ 166	$1,044	$ 545
Per common share — assuming dilution					
Income (loss) from continuing operations attributable to Key common shareholders	$.32	$ .36	$ .16	$.95	$ .60
Income (loss) from discontinued operations, net of taxes [a]	—	—	—	.01	.01
Net income (loss) attributable to Key common shareholders [b]	$.32	$ .36	$ .17	$.96	$ .61

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for these businesses as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 12 (“Acquisition, Divestiture, and Discontinued Operations”).

(b) EPS may not foot due to rounding.

Figure 6 presents certain non-GAAP financial measures related to “tangible common equity,” “return on tangible common equity,” “cash efficiency ratio,” certain financial measures excluding notable items, and “Common Equity Tier 1 under the Regulatory Capital Rules (estimates).”

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 in order to enable a better understanding of Company results, increase comparability of period-to-period results, and to evaluate and forecast those results.

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 6 reconciles the GAAP performance measures to the corresponding non-GAAP measures.

As disclosed in Note 2 (“Business Combination”) and Note 12 (“Acquisition, Divestiture, and Discontinued Operations”), KeyCorp completed its 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’ve recognized merger-related charges. For the second and third quarters of 2017, merger-related charges are included in the total for "notable items." The table below 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. Management believes that eliminating the effects of the merger-related charges and other notable items makes it easier to analyze the 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 6. GAAP to Non-GAAP Reconciliations

	Three months ended					Nine months ended	
dollars in millions	9/30/2017	6/30/2017	3/31/2017	12/31/2016	9/30/2016	9/30/2017	9/30/2016
Tangible common equity to tangible assets at period-end							
Key shareholders' equity (GAAP)	$15,249	$15,253	$14,976	$15,240	$14,996		
Less: Intangible assets [(a)]	2,870	2,866	2,751	2,788	2,855		
Preferred Stock [(b)]	1,009	1,009	1,009	1,640	1,150		
Tangible common equity (non-GAAP)	$11,370	$11,378	$11,216	$10,812	$10,991		
Total assets (GAAP)	$136,733	$135,824	$134,476	$136,453	$135,805		
Less: Intangible assets [(a)]	2,870	2,866	2,751	2,788	2,855		
Tangible assets (non-GAAP)	$133,863	$132,958	$131,725	$133,665	$132,950		
Tangible common equity to tangible assets ratio (non-GAAP)	8.49 %	8.56 %	8.51 %	8.09 %	8.27 %		
Notable items							
Merger-related charges	$(36)	$(44)	$(81)	$(198)	(207)	$(161)	$(276)
Merchant services gain	(5)	64	—	—	—	59	—
Purchase accounting finalization, net	—	43	—	—	—	43	—
Charitable contribution	—	(20)	—	—	—	(20)	—
Total notable items	$(41)	$43	$(81)	$(198)	(207)	$(79)	$(276)
Income taxes	(13)	16	(30)	(74)	(75)	(27)	(101)
Total notable items after tax	$(28)	$27	$(51)	$(124)	(132)	$(52)	$(175)
Average tangible common equity							
Average Key shareholders' equity (GAAP)	$15,241	$15,200	$15,184	$14,901	$13,552	$15,208	$11,890
Less: Intangible assets (average) [(c)]	2,878	2,756	2,772	2,874	2,255	2,802	1,473
Preferred Stock (average)	1,025	1,025	1,480	1,274	648	1,175	410
Average tangible common equity (non-GAAP)	$11,338	$11,419	$10,932	$10,753	$10,649	$11,231	$10,007
Return on average tangible common equity from continuing operations							
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	$349	$393	$296	$213	$165	$1,038	$540
Plus: Notable items, after tax	28	(27)	51	124	132	52	175
Net income (loss) from continuing operations attributable to Key common shareholders after	$377	$366	$347	$337	$297	$1,090	$715

notable items (non-GAAP)							
Average tangible common equity (non-GAAP)	11,338	11,419	10,932	10,753	10,649	11,231	10,007
Return on average tangible common equity from continuing operations (non-GAAP)	12.21 %	13.80 %	10.98 %	7.88 %	6.16 %	12.36 %	7.21 %
Return on average tangible common equity from continuing operations excluding notable items (non-GAAP)	13.19	12.86	12.87	12.47	11.10	12.98	9.54
Return on average tangible common equity consolidated							
Net income (loss) attributable to Key common shareholders (GAAP)	$350	$398	$296	$209	$166	$1,044	$545
Average tangible common equity (non-GAAP)	11,338	11,419	10,932	10,753	10,649	11,231	10,007
Return on average tangible common equity consolidated (non-GAAP)	12.25 %	13.98 %	10.98 %	7.73 %	6.20 %	12.43 %	7.27 %
Pre-provision net revenue							
Net interest income (GAAP)	$948	$973	$918	$938	$780	$2,839	$1,981
Plus: Taxable-equivalent adjustment	14	14	11	10	8	39	24
Noninterest income (GAAP)	592	653	577	618	549	1,822	1,453
Less: Noninterest expense (GAAP)	992	995	1,013	1,220	1,082	3,000	2,536
Pre-provision net revenue from continuing operations (non-GAAP)	$562	$645	$493	$346	$255	$1,700	$922
Plus: Notable items	36	(43)	81	198	207	79	276
Pre-provision net revenue from continuing operations excluding notable items (non-GAAP)	603	602	574	544	462	1,779	1,198
Cash efficiency ratio							
Noninterest expense (GAAP)	$992	$995	$1,013	$1,220	$1,082	$3,000	$2,536
Less: Intangible asset amortization	25	22	22	27	13	69	28
Adjusted noninterest expense (non-GAAP)	$967	$973	$991	$1,193	$1,069	$2,931	$2,508
Less: Notable items [(d)]	36	60	81	207	189	177	258
Adjusted noninterest expense excluding notable items (non-GAAP)	$931	$913	$910	$986	$880	$2,754	$2,250
Net interest income (GAAP)	$948	$973	$918	$938	$780	$2,839	$1,981
Plus: Taxable-equivalent adjustment	14	14	11	10	8	39	24
Noninterest income (GAAP)	592	653	577	618	549	1,822	1,453

Total taxable-equivalent revenue (non-GAAP)	$1,554	$1,640	$1,506	$1,566	$1,337	$4,700	$3,458
Plus: Notable items [e]	5	(103)	—	(9)	18	(98)	18
Adjusted noninterest income excluding notable items (non-GAAP)	$1,559	$1,537	$1,506	$1,557	$1,355	$4,602	$3,476
Cash efficiency ratio (non-GAAP)	62.2 %	59.3 %	65.8 %	76.2 %	80.0 %	62.4 %	72.5 %
Cash efficiency ratio excluding notable items (non-GAAP)	59.7	59.4	60.4	63.3	64.9	59.8	64.7
Return on average total assets from continuing operations excluding notable items							
Income from continuing operations attributable to Key (GAAP)	$363	$407	$324	$233	$171	$1,094	$557
Plus: Notable items, after tax	28	(27)	51	124	132	52	175
Income from continuing operations attributable to Key excluding notable items, after tax (non-GAAP)	$391	$380	$375	$357	$303	$1,146	$732
Average total assets from continuing operations (GAAP)	$134,356	$132,491	$132,741	$134,428	$123,469	$133,202	$105,187
Return on average total assets from continuing operations excluding notable items (non-GAAP)	1.15 %	1.15 %	1.15 %	1.06 %	.98 %	1.15 %	.93 %

Table of Contents

Figure 6. GAAP to Non-GAAP Reconciliations, continued

dollars in millions	Three months ended September 30, 2017
Common Equity Tier 1 under the Regulatory Capital Rules (estimates)	
Common Equity Tier 1 under current Regulatory Capital Rules	$ 12,129
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Deferred tax assets and other intangible assets [f]	(57)
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules [g]	$ 12,072
Net risk-weighted assets under current Regulatory Capital Rules	$ 118,233
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Mortgage servicing assets [h]	623
Volcker Funds	—
All other assets	49
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules [g]	$ 118,905
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules [g]	10.15 %

(a) For the three months ended September 30, 2017, June 30, 2017, March 31, 2017, December 31, 2016, and September 30, 2016, intangible assets exclude $30 million, $33 million, $38 million, $42 million, and $51 million, respectively, of period-end purchased credit card relationships.

(b) Net of capital surplus.

(c) For the three months ended September 30, 2017, June 30, 2017, March 31, 2017, December 31, 2016, and September 30, 2016, average intangible assets exclude $32 million, $36 million, $40 million, $46 million, and $47 million, respectively, of average purchased credit card relationships. For the nine months ended September 30, 2017, and September 30, 2016, average intangible assets exclude $36 million and $42 million, respectively, of average purchased credit card receivables.

(d) Notable items for the three months ended September 30, 2017, include $36 million of merger-related expense.

(e) Notable items for the three months ended September 30, 2017, include $5 million adjustment related to the merchant services acquisition gain.

(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%.

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

Figure 7 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five quarters. This figure also presents a reconciliation of TE net interest income to net interest income reported in accordance with GAAP for each of those quarters. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing annualized TE net interest income by average earning assets.

Third quarter 2017 TE net interest income included $48 million of purchase accounting accretion related to the acquisition of First Niagara, compared to $19 million in the third quarter of 2016, and $100 million in the second quarter of 2017.

TE net interest income was $962 million for the third quarter of 2017, and the net interest margin was 3.15%, compared to TE net interest income of $788 million and a net interest margin of 2.85% for the third quarter of 2016,

reflecting the full quarter benefit from the First Niagara acquisition, including purchase accounting accretion, as well as higher earning asset yields and balances.

For the nine months ended September 30, 2017, TE net interest income was $2.9 billion and the net interest margin was 3.19%, compared to TE net interest income of $2.0 billion and a net interest margin of 2.84% for the prior year, reflecting the full year-to-date benefit from the First Niagara acquisition, growth in our core earning asset balances, higher interest rates, and managed deposit costs.

Average loans were $86.8 billion for the third quarter of 2017, an increase of $9.1 billion compared to the third quarter of 2016, primarily reflecting a full-quarter impact of the First Niagara acquisition, as well as growth in commercial and industrial loans, which was broad-based and spread across Key's commercial lines of business. At September 30, 2017, the remaining fair value discount on the First Niagara acquired loan portfolio was $302 million, compared to $345 million at June 30, 2017.

Average deposits totaled $103.1 billion for the third quarter of 2017, an increase of $8.2 billion compared to the year-ago quarter, primarily reflecting a full-quarter impact of the First Niagara acquisition, and core retail and commercial deposit growth.

Table of Contents

Figure 7. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates from Continuing Operations

	Third Quarter 2017			Second Quarter 2017		
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]	$41,416	$ 414	3.97 %	$40,666	$ 409	4.04 %
Real estate — commercial mortgage	14,850	169	4.51	15,096	187	4.97
Real estate — construction	2,054	23	4.51	2,204	31	5.51
Commercial lease financing	4,694	46	3.89	4,690	50	4.33
Total commercial loans	63,014	652	4.11	62,656	677	4.34
Real estate — residential mortgage	5,493	54	3.92	5,509	52	3.77
Home equity loans	12,314	136	4.41	12,473	135	4.31
Consumer direct loans	1,774	33	7.26	1,743	31	7.07
Credit cards	1,049	30	11.34	1,044	29	11.04
Consumer indirect loans	3,170	37	4.64	3,077	38	5.02
Total consumer loans	23,800	290	4.85	23,846	285	4.77
Total loans	86,814	942	4.31	86,502	962	4.46
Loans held for sale	1,607	17	4.13	1,082	9	3.58
Securities available for sale [b], [e]	18,574	91	1.96	17,997	90	1.97
Held-to-maturity securities [b]	10,469	55	2.12	10,469	55	2.09
Trading account assets	889	7	2.74	1,042	7	3.00
Short-term investments	2,166	6	1.21	1,970	5	.96
Other investments [e]	728	5	2.46	687	3	1.87
Total earning assets	121,247	1,123	3.68	119,749	1,131	3.78
Allowance for loan and lease losses	(868)			(864)		
Accrued income and other assets	13,977			13,606		
Discontinued assets	1,417			1,477		
Total assets	$135,773			$133,968		
LIABILITIES						
NOW and money market deposit accounts	$53,826	37	.27	$54,416	34	.25
Savings deposits	6,697	5	.25	6,854	4	.21
Certificates of deposit ($100,000 or more)	6,402	21	1.31	6,111	19	1.23
Other time deposits	4,664	9	.81	4,650	9	.77
Total interest-bearing deposits	71,589	72	.40	72,031	66	.36
Federal funds purchased and securities sold under repurchase agreements	456	—	.23	466	—	.23
Bank notes and other short-term borrowings	865	3	1.49	1,216	4	1.43
Long-term debt [f], [g]	12,631	86	2.75	11,046	74	2.68
Total interest-bearing liabilities	85,541	161	.75	84,759	144	.68
Noninterest-bearing deposits	31,516			30,748		
Accrued expense and other liabilities	2,057			1,782		
Discontinued liabilities [g]	1,417			1,477		
Total liabilities	120,531			118,766		
EQUITY						
Key shareholders' equity	15,241			15,200		
Noncontrolling interests	1			2		

Total equity	15,242		15,202	
Total liabilities and equity	$135,773		$133,968	
Interest rate spread (TE)		2.93 %		3.10 %
Net interest income (TE) and net interest margin (TE)	962	3.15 %	987	3.30 %
TE adjustment [b]	14		14	
Net interest income, GAAP basis	$ 948		$ 973	

(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 of 35%.

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

(d) Commercial and industrial average balances include $117 million, $117 million, $114 million, $119 million, and $107 million of assets from commercial credit cards for the three months ended September 30, 2017, June 30, 2017, March 31, 2017, December 31, 2016, and September 30, 2016, respectively.

Table of Contents

Figure 7. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates from Continuing Operations

First Quarter 2017			Fourth Quarter 2016			Third Quarter 2016		
Average Balance	Interest [a]	Yield/ Rate [a]	Average Balance	Interest [a]	Yield/ Rate [a]	Average Balance	Interest [a]	Yield/ Rate [a]
$40,002	$ 373	3.77 %	$39,495	$ 365	3.68 %	$37,318	$ 317	3.38 %
15,187	164	4.39	14,771	168	4.50	12,879	126	3.91
2,353	26	4.54	2,222	37	6.72	1,723	21	4.67
4,635	44	3.76	4,624	50	4.34	4,508	38	3.33
62,177	607	3.95	61,112	620	4.04	56,428	502	3.54
5,520	54	3.94	5,554	57	4.17	4,453	45	3.96
12,611	131	4.22	12,812	129	3.99	11,968	122	4.07
1,762	30	6.97	1,785	31	6.84	1,666	30	7.20
1,067	29	11.06	1,088	29	10.78	996	27	10.80
2,996	37	4.91	3,009	42	5.50	2,186	28	5.23
23,956	281	4.75	24,248	288	4.73	21,269	252	4.73
86,133	888	4.17	85,360	908	4.24	77,697	754	3.86
1,188	13	4.28	1,323	11	3.39	1,152	10	3.48
19,181	95	1.95	20,145	92	1.82	17,972	88	1.99
9,988	51	2.04	9,121	44	1.95	6,250	30	1.86
968	7	2.75	892	6	2.54	860	4	2.12
1,610	3	.79	3,717	5	.49	5,911	7	.48
709	4	2.26	741	6	3.23	717	5	2.74
119,777	1,061	3.57	121,299	1,072	3.52	110,559	898	3.24
(855)			(855)			(847)		
13,819			13,984			13,757		
1,540			1,610			1,676		
$134,281			$136,038			$125,145		
$54,295	32	.24	$55,444	31	.22	$51,318	25	.20
6,351	1	.10	6,546	2	.10	4,521	1	.07
5,627	16	1.16	5,428	15	1.11	4,204	12	1.15
4,706	9	.76	4,849	9	.77	5,031	11	.85
70,979	58	.33	72,267	57	.32	65,074	49	.30
795	1	.32	592	1	.11	578	—	.16
1,802	5	1.06	934	3	1.11	1,186	2	.91
10,833	68	2.54	10,914	63	2.38	10,415	59	2.31
84,409	132	.63	84,707	124	.58	77,253	110	.57
31,099			32,424			29,844		
2,048			2,394			2,818		
1,540			1,610			1,676		
119,096			121,135			111,591		
15,184			14,901			13,552		
1			2			2		
15,185			14,903			13,554		
$134,281			$136,038			$125,145		

	2.94 %		2.94 %		2.67 %
929	3.13 %	948	3.12 %	788	2.85 %
11		10		8	
$ 918		$ 938		$ 780	

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

Figure 8. Components of Net Interest Income Changes from Continuing Operations

in millions	From three months ended September 30, 2016 to three months ended September 30, 2017			From nine months ended September 30, 2016 to nine months ended September 30, 2017		
	Average Volume	Yield/Rate	Net Change [a]	Average Volume	Yield/Rate	Net Change [a]
INTEREST INCOME						
Loans	$94	$94	$ 188	$627	$266	$ 893
Loans held for sale	5	2	7	13	3	16
Securities available for sale	3	—	3	46	(7)	39
Held-to-maturity securities	22	3	25	78	5	83
Trading account assets	—	3	3	2	2	4
Short-term investments	(6)	5	(1)	(15)	12	(3)
Other investments	—	—	—	1	1	2
Total interest income (TE)	118	107	225	752	282	1,034
INTEREST EXPENSE						
NOW and money market deposit accounts	1	11	12	17	30	47
Savings deposits	1	3	4	2	7	9
Certificates of deposit ($100,000 or more)	7	2	9	25	(2)	23
Other time deposits	(1)	(1)	(2)	5	(2)	3
Total interest-bearing deposits	8	15	23	49	33	82
Federal funds purchased and securities sold under repurchase agreements	—	—	—	—	1	1
Bank notes and other short-term borrowings	(1)	2	1	4	1	5
Long-term debt	14	13	27	38	35	73
Total interest expense	21	30	51	91	70	161
Net interest income (TE)	$97	$ 77	$ 174	$661	$212	$ 873

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

Noninterest income

As shown in Figure 9, noninterest income was $592 million for the third quarter of 2017, compared to $549 million for the year-ago quarter. For the nine months ended September 30, 2017, noninterest income was $1.8 billion compared to $1.5 billion for the same period one year ago. Noninterest income represented 38% and 39% of total revenue for the three and nine months ended September 30, 2017, respectively, compared to 41% and 42% for the three and nine months ended September 30, 2016, respectively.

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

Figure 9. Noninterest Income

dollars in millions	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2017	2016	Amount	Percent	2017	2016	Amount	Percent
Trust and investment services income	$135	$122	$13	10.7 %	$404	$341	$63	18.5 %
Investment banking and debt placement fees	141	156	(15)	(9.6)	403	325	78	24.0
Service charges on deposit accounts	91	85	6	7.1	268	218	50	22.9
Operating lease income and other leasing gains	16	6	10	166.7	69	41	28	68.3
Corporate services income	54	51	3	5.9	163	154	9	5.8
Cards and payments income	75	66	9	13.6	210	164	46	28.0
Corporate-owned life insurance income	31	29	2	6.9	94	85	9	10.6
Consumer mortgage income	7	6	1	16.7	19	11	8	72.7
Mortgage servicing fees	21	15	6	40.0	54	37	17	45.9
Net gains (losses) from principal investing	3	5	(2)	(40.0)	4	16	(12)	(75.0)
Other income	18	8	10	125.0	134	61	73	119.7
Total noninterest income	$592	$549	$43	7.8 %	$1,822	$1,453	$369	25.4 %

Table of Contents

Trust and investment services income

Trust and investment services income consists of brokerage commissions, trust and asset management commissions, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 10. For the three months ended September 30, 2017, trust and investment services income increased $13 million, or 10.7%, compared to the same period one year ago, primarily due to an increase in insurance income as a result of the First Niagara acquisition and fees earned from investment management services as a result of stronger market performance.

For the nine months ended September 30, 2017, trust and investment services income was up $63 million, or 18.5%, from the nine months ended September 30, 2016, primarily due to an increase in insurance income and brokerage commissions as a result of the acquisition of First Niagara and higher fees earned from investment management services as a result of stronger market performance.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At September 30, 2017, our bank, trust, and registered investment advisory subsidiaries had assets under management of $38.7 billion, compared to $36.8 billion at September 30, 2016. The increase in assets under management, as shown in Figure 10, was primarily attributable to market appreciation over the past twelve months.
Figure 10. Assets Under Management

in millions	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016
Assets under management by investment type:					
Equity	$ 23,342	$22,824	$22,522	$ 21,722	$ 21,568
Securities lending	876	807	1,095	1,148	991
Fixed income	11,009	10,819	10,497	10,386	11,016
Money market	3,433	3,163	3,303	3,336	3,177
Total assets under management	$ 38,660	$37,613	$37,417	$ 36,592	$ 36,752

Investment banking and debt placement fees

Investment banking and debt placement fees consists of syndication fees, debt and equity financing fees, financial adviser fees, gains on sales of commercial mortgages, and agency origination fees. Investment banking and debt placement fees decreased $15 million, or 9.6%, for the third quarter of 2017, related to strong market conditions in the year-ago period.

For the nine months ended September 30, 2017, investment banking and debt placement fees increased $78 million, or 24.0%, from the same period one year ago driven by stronger market conditions.

Service charges on deposit accounts

Service charges on deposit accounts increased $6 million, or 7.1%, for the three months ended September 30, 2017, compared to the same period one year ago. The increase from the three months ended September 30, 2016, was primarily due to the full-quarter impact of the First Niagara acquisition and higher overdraft and account analysis fees.

For the nine months ended September 30, 2017, service charges on deposits accounts increased $50 million, or 22.9%, from the first nine months of 2016. This increase was primarily due to the full year-to-date impact of the First Niagara acquisition.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased $9 million, or 13.6%, from the year-ago quarter. This increase was primarily due to the full-quarter impact of the First Niagara acquisition and our 2017 acquisition of Key Merchant Services, LLC, which increased merchant services fees compared to the same period one year ago.

For the nine months ended September 30, 2017, cards and payments income was $210 million, an increase of $46 million, or 28.0%, from the same period one year ago. This increase was primarily due to the full year-to-date impact of the First Niagara acquisition and our 2017 acquisition of Key Merchant Services, LLC.

Table of Contents

Other income

Other income, which consists primarily of gains on sales of loans held for sale, other service charges, and certain dealer trading income, was up $10 million, or 125.0%, from the year-ago quarter. This increase was primarily attributable to higher recoveries of loans that were charged-off by First Niagara prior to acquisition and gains on sales of loans held for sale.

For the nine months ended September 30, 2017, other income was up $73 million, or 119.7%, from the same period one year ago. This increase was driven by a $64 million one-time gain related to our Key Merchant Services, LLC acquisition that occurred in the second quarter of 2017 and recoveries of loans that were charged-off by First Niagara prior to acquisition, partially offset by lower trading income.

Noninterest expense

As shown in Figure 11, noninterest expense was $992 million for the third quarter of 2017 compared to $1.1 billion for the third quarter of 2016. The third quarter of 2017 included $36 million of merger-related charges compared to $189 million for the third quarter of 2016.

For the nine months ended September 30, 2017, noninterest expense was $3.0 billion compared to $2.5 billion for the same period one year ago. Merger-related charges for the nine months ended September 30, 2017, were $161 million compared to $258 million for the same period one year ago.

Figure 11. Noninterest Expense

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
dollars in millions	2017	2016	Amount	Percent	2017	2016	Amount	Percent
Personnel [a]	$558	$594	$(36)	(6.1)%	$1,665	$1,425	$240	16.8 %
Net occupancy	74	73	1	1.4	239	193	46	23.8
Computer processing	56	70	(14)	(20.0)	171	158	13	8.2
Business services and professional fees	49	76	(27)	(35.5)	140	157	(17)	(10.8)
Equipment	29	26	3	11.5	83	68	15	22.1
Operating lease expense	24	15	9	60.0	64	42	22	52.4
Marketing	34	32	2	6.3	85	66	19	28.8
FDIC assessment	21	21	—	—	62	38	24	63.2
Intangible asset amortization	25	13	12	92.3	69	28	41	146.4
OREO expense, net	3	3	—	—	8	6	2	33.3
Other expense	119	159	(40)	(25.2)	414	355	59	16.6
Total noninterest expense	$992	$1,082	$					