

KEYCORP /NEW/
Form 10-Q
May 03, 2018
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 March 31, 2018

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.

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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	1,061,663,471 shares
Title of class	Outstanding at April 30, 2018

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KEYCORP

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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 March 31, 2018, and March 31, 2017. 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 "2017 Form 10-K" refer to our Form 10-K for the year ended December 31, 2017, 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.

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

We use the phrase continuing operations in this document to mean all of our businesses other than the education lending business 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 2017 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.

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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.

ALCO: Asset/Liability Management Committee.	KAHC: Key Affordable Housing Corporation.
ALLL: Allowance for loan and lease losses.	KBCM: KeyBanc Capital Markets, Inc.
A/LM: Asset/liability management.	KCC: Key Capital Corporation.
AOCI: Accumulated other comprehensive income (loss).	KCDC: Key Community Development Corporation.
APBO: Accumulated postretirement benefit obligation.	KEF: Key Equipment Finance.
ASC: Accounting Standards Codification.	KMS: Key Merchant Services, LLC.
Austin: Austin Capital Management, Ltd.	KPP: Key Principal Partners.
BHCs: Bank holding companies.	KREEC: Key Real Estate Equity Capital, Inc.
Board: KeyCorp Board of Directors.	LCR: Liquidity coverage ratio.
Cain Brothers: Cain Brothers & Company, LLC.	LIBOR: London Interbank Offered Rate.
CCAR: Comprehensive Capital Analysis and Review.	LIHTC: Low-income housing tax credit.
CMBS: Commercial mortgage-backed securities.	LTV: Loan-to-value.
CME: Chicago Mercantile Exchange.	Moody’s: Moody’s Investor Services, Inc.
CMO: Collateralized mortgage obligation.	MRM: Market Risk Management group.
Common Shares: KeyCorp common shares, \$1 par value.	N/A: Not applicable.
DIF: Deposit Insurance Fund of the FDIC.	NASDAQ: The NASDAQ Stock Market LLC.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.	NAV: Net asset value.
EBITDA: Earnings before interest, taxes, depreciation, and amortization.	N/M: Not meaningful.
EPS: Earnings per share.	NOW: Negotiable Order of Withdrawal.
ERISA: Employee Retirement Income Security Act of 1974.	NPR: Notice of proposed rulemaking.
ERM: Enterprise risk management.	NYSE: New York Stock Exchange.
EVE: Economic value of equity.	OCC: Office of the Comptroller of the Currency.
FASB: Financial Accounting Standards Board.	OCI: Other comprehensive income (loss).
FDIC: Federal Deposit Insurance Corporation.	OREO: Other real estate owned.
Federal Reserve: Board of Governors of the Federal Reserve System.	OTTI: Other-than-temporary impairment.
FHLB: Federal Home Loan Bank of Cincinnati.	PBO: Projected benefit obligation.
FHLMC: Federal Home Loan Mortgage Corporation.	PCI: Purchased credit impaired.
FICO: Fair Isaac Corporation.	S&P: Standard and Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
First Niagara: First Niagara Financial Group, Inc. (NASDAQ: FNFG).	SEC: U.S. Securities and Exchange Commission.
FNMA: Federal National Mortgage Association, or Fannie Mae.	Series A Preferred Stock: KeyCorp’s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
FSOC: Financial Stability Oversight Council.	TCJ Act: Tax Cuts and Jobs Act.
GAAP: U.S. generally accepted accounting principles.	TDR: Troubled debt restructuring.
GNMA: Government National Mortgage Association, or Ginnie Mae.	TE: Taxable-equivalent.
HelloWallet: HelloWallet, LLC.	U.S. Treasury: United States Department of the Treasury.
ISDA: International Swaps and Derivatives Association.	VaR: Value at risk.
	VEBA: Voluntary Employee Beneficiary Association.
	VIE: Variable interest entity.

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 statements 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

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statements in other documents filed with or furnished to the SEC. In addition, we may make forward-looking statements orally to analysts, investors, representatives of the media, and others.

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

- deterioration of commercial real estate market fundamentals;
- defaults by our loan counterparties or clients;
- adverse changes in credit quality trends;
- declining asset prices;
- our concentrated credit exposure in commercial and industrial loans;
- the extensive regulation of the U.S. financial services industry;
- changes in accounting policies, standards, and interpretations;
- operational or risk management failures by us or critical third parties;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- negative outcomes from claims or litigation;
- failure or circumvention of our controls and procedures;
- the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;
- evolving capital and liquidity standards under applicable regulatory rules;
- disruption of the U.S. financial system;
- our ability to receive dividends from our subsidiary, KeyBank;
- unanticipated changes in our liquidity position, including but not limited to, changes in our access to or the cost of funding and our ability to secure alternative funding sources;
- downgrades in our credit ratings or those of KeyBank;
- a reversal of the U.S. economic recovery due to financial, political or other shocks;
- our ability to anticipate interest rate changes and manage interest rate risk;
- deterioration of economic conditions in the geographic regions where we operate;
- the soundness of other financial institutions;
- tax reform and other changes in tax laws, including the impact of the TCJ Act;
- our ability to attract and retain talented executives and employees and to manage our reputational risks;
- our ability to timely and effectively implement our strategic initiatives;
- increased competitive pressure from banks and non-banks;
- 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.

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Selected financial data

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

Figure 1. Selected Financial Data

	2018	2017			
dollars in millions, except per share amounts	First	Fourth	Third	Second	First
FOR THE PERIOD					
Interest income	\$1,137	\$1,114	\$1,109	\$1,117	\$1,050
Interest expense	193	176	161	144	132
Net interest income	944	938	948	973	918
Provision for credit losses	61	49	51	66	63
Noninterest income	601	656	592	653	577
Noninterest expense	1,006	1,098	992	995	1,013
Income (loss) from continuing operations before income taxes	478	447	497	565	419
Income (loss) from continuing operations attributable to Key	416	195	363	407	324
Income (loss) from discontinued operations, net of taxes	2	1	1	5	—
Net income (loss) attributable to Key	418	196	364	412	324
Income (loss) from continuing operations attributable to Key common shareholders	402	181	349	393	296
Income (loss) from discontinued operations, net of taxes	2	1	1	5	—
Net income (loss) attributable to Key common shareholders	404	182	350	398	296
PER COMMON SHARE					
Income (loss) from continuing operations attributable to Key common shareholders	\$.38	\$.17	\$.32	\$.36	\$.28
Income (loss) from discontinued operations, net of taxes	—	—	—	—	—
Net income (loss) attributable to Key common shareholders ^(a)	.38	.17	.32	.37	.28
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	.38	.17	.32	.36	.27
Income (loss) from discontinued operations, net of taxes — assuming dilution	—	—	—	—	—
Net income (loss) attributable to Key common shareholders — assuming dilution ^(a)	.38	.17	.32	.36	.27
Cash dividends paid	.105	.105	.095	.095	.085
Book value at period end	13.07	13.09	13.18	13.02	12.71
Tangible book value at period end	10.35	10.35	10.52	10.40	10.21
Market price:					
High	22.15	20.44	19.37	19.10	19.53
Low	19.04	17.64	16.47	16.91	16.54
Close	19.55	20.17	18.82	18.74	17.78
Weighted-average common shares outstanding (000)	1,056,037	1,062,348	1,073,390	1,076,203	1,068,609
Weighted-average common shares and potential common shares outstanding (000) ^(b)	1,071,786	1,079,330	1,088,841	1,093,039	1,086,540
AT PERIOD END					
Loans	\$88,089	\$86,405	\$86,492	\$86,503	\$86,125
Earning assets	122,961	123,490	122,625	121,243	120,261
Total assets	137,049	137,698	136,733	135,824	134,476
Deposits	104,751	105,235	103,446	102,821	103,982

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Long-term debt	13,749	14,333	15,100	13,261	12,324	
Key common shareholders' equity	13,919	13,998	14,224	14,228	13,951	
Key shareholders' equity	14,944	15,023	15,249	15,253	14,976	
PERFORMANCE RATIOS — FROM CONTINUING OPERATIONS						
Return on average total assets	1.25	% .57	% 1.07	% 1.23	% .99	%
Return on average common equity	11.76	5.04	9.74	11.12	8.76	
Return on average tangible common equity ^(c)	14.89	6.35	12.21	13.80	10.98	
Net interest margin (TE)	3.15	3.09	3.15	3.30	3.13	
Cash efficiency ratio ^(c)	62.9	66.7	62.2	59.3	65.8	
PERFORMANCE RATIOS — FROM CONSOLIDATED OPERATIONS						
Return on average total assets	1.24	% .57	% 1.06	% 1.23	% .98	%
Return on average common equity	11.82	5.07	9.77	11.26	8.76	
Return on average tangible common equity ^(c)	14.97	6.39	12.25	13.98	10.98	
Net interest margin (TE)	3.13	3.07	3.13	3.28	3.11	
Loan-to-deposit ^(d)	86.9	84.4	86.2	87.2	85.6	
CAPITAL RATIOS AT PERIOD END						
Key shareholders' equity to assets	10.90	% 10.91	% 11.15	% 11.23	% 11.14	%
Key common shareholders' equity to assets	10.16	10.17	10.40	10.48	10.37	
Tangible common equity to tangible assets ^(c)	8.22	8.23	8.49	8.56	8.51	
Common Equity Tier 1	9.99	10.16	10.26	9.91	9.91	
Tier 1 risk-based capital	10.82	11.01	11.11	10.73	10.74	
Total risk-based capital	12.73	12.92	13.09	12.64	12.69	
Leverage	9.76	9.73	9.83	9.95	9.81	
TRUST ASSETS						
Assets under management	\$39,003	\$39,588	\$38,660	\$37,613	\$37,417	
OTHER DATA						
Average full-time-equivalent employees	18,540	18,379	18,548	18,344	18,386	
Branches	1,192	1,197	1,208	1,210	1,216	

(a) EPS may not foot due to rounding.

(b) Assumes conversion of Common Share options and other stock awards as applicable.

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

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

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Figure 2 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 2 reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Beginning in the first quarter of 2018, we no longer separately report merger-related charges. Prior to that, we reported merger-related charges as a result of our 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. For every quarter 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 made it easier to analyze the results by presenting them on a more comparable basis.

Figure 2 also shows the computation for and reconciliation of pre-provision net revenue, which is not formally defined by GAAP. We believe that eliminating the effects of the provision for credit losses makes it easier to analyze our results by presenting them on a more comparable basis.

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

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, nor as a substitute for analyses of results as reported under GAAP.

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Figure 2. GAAP to Non-GAAP Reconciliations

dollars in millions	Three months ended					
	3/31/2018	12/31/2017	9/30/2017	6/30/2017	3/31/2017	
Tangible common equity to tangible assets at period-end						
Key shareholders' equity (GAAP)	\$14,944	\$15,023	\$15,249	\$15,253	\$14,976	
Less: Intangible assets ^(a)	2,902	2,928	2,870	2,866	2,751	
Preferred Stock ^(b)	1,009	1,009	1,009	1,009	1,009	
Tangible common equity (non-GAAP)	\$11,033	\$11,086	\$11,370	\$11,378	\$11,216	
Total assets (GAAP)	\$137,049	\$137,698	\$136,733	\$135,824	\$134,476	
Less: Intangible assets ^(a)	2,902	2,928	2,870	2,866	2,751	
Tangible assets (non-GAAP)	\$134,147	\$134,770	\$133,863	\$132,958	\$131,725	
Tangible common equity to tangible assets ratio (non-GAAP)	8.22	% 8.23	% 8.49	% 8.56	% 8.51	%
Notable items						
Merger-related charges	—	\$(56)	\$(36)	\$(44)	\$(81)	
Impacts of tax reform and related actions	—	(30)	—	—	—	
Merchant services gain	—	—	(5)	64	—	
Purchase accounting finalization, net	—	—	—	43	—	
Charitable contribution	—	—	—	(20)	—	
Total notable items	—	\$(86)	\$(41)	\$43	\$(81)	
Income taxes	—	(26)	(13)	16	(30)	
Reevaluation of certain tax related assets	—	147	—	—	—	
Total notable items after tax	—	\$(207)	\$(28)	\$27	\$(51)	
Average tangible common equity						
Average Key shareholders' equity (GAAP)	\$14,889	\$15,268	\$15,241	\$15,200	\$15,184	
Less: Intangible assets (average) ^(c)	2,916	2,939	2,878	2,756	2,772	
Preferred Stock (average)	1,025	1,025	1,025	1,025	1,480	
Average tangible common equity (non-GAAP)	\$10,948	\$11,304	\$11,338	\$11,419	\$10,932	
Return on average tangible common equity from continuing operations						
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$402	\$181	\$349	\$393	\$296	
Plus: Notable items, after tax	—	207	28	(27)	51	
Net income (loss) from continuing operations attributable to Key common shareholders after notable items (non-GAAP)	\$402	\$388	\$377	\$366	\$347	
Average tangible common equity (non-GAAP)	10,948	11,304	11,338	11,419	10,932	
Return on average tangible common equity from continuing operations (non-GAAP)	14.89	% 6.35	% 12.21	% 13.80	% 10.98	%
Return on average tangible common equity from continuing operations excluding notable items (non-GAAP)	14.89	13.62	13.19	12.86	12.87	
Return on average tangible common equity consolidated						
Net income (loss) attributable to Key common shareholders (GAAP)	\$404	\$182	\$350	\$398	\$296	
Average tangible common equity (non-GAAP)	10,948	11,304	11,338	11,419	10,932	
Return on average tangible common equity consolidated (non-GAAP)	14.97	% 6.39	% 12.25	% 13.98	% 10.98	%
Pre-provision net revenue						

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Net interest income (GAAP)	\$944	\$938	\$948	\$973	\$918	
Plus: Taxable-equivalent adjustment	8	14	14	14	11	
Noninterest income (GAAP)	601	656	592	653	577	
Less: Noninterest expense (GAAP)	1,006	1,098	992	995	1,013	
Pre-provision net revenue from continuing operations (non-GAAP)	\$547	\$510	\$562	\$645	\$493	
Plus: Notable items	—	86	41	(43)	81	
Pre-provision net revenue from continuing operations excluding notable items (non-GAAP)	547	596	603	602	574	
Cash efficiency ratio						
Noninterest expense (GAAP)	\$1,006	\$1,098	\$992	\$995	\$1,013	
Less: Intangible asset amortization	29	26	25	22	22	
Adjusted noninterest expense (non-GAAP)	\$977	\$1,072	\$967	\$973	\$991	
Less: Notable items	—	85	36	60	81	
Adjusted noninterest expense excluding notable items (non-GAAP)	\$977	\$987	\$931	\$913	\$910	
Net interest income (GAAP)	\$944	\$938	\$948	\$973	\$918	
Plus: Taxable-equivalent adjustment	8	14	14	14	11	
Noninterest income (GAAP)	601	656	592	653	577	
Total taxable-equivalent revenue (non-GAAP)	\$1,553	\$1,608	\$1,554	\$1,640	\$1,506	
Plus: Notable items	—	1	5	(103)	—	
Adjusted noninterest income excluding notable items (non-GAAP)	\$1,553	\$1,609	\$1,559	\$1,537	\$1,506	
Cash efficiency ratio (non-GAAP)	62.9	%66.7	%62.2	%59.3	%65.8	%
Cash efficiency ratio excluding notable items (non-GAAP)	62.9	61.3	59.7	59.4	60.4	
Return on average total assets from continuing operations excluding notable items						
Income from continuing operations attributable to Key (GAAP)	\$416	\$195	\$363	\$407	\$324	
Plus: Notable items, after tax	—	207	28	(27)	51	
Income from continuing operations attributable to Key excluding notable items, after tax (non-GAAP)	\$416	\$402	\$391	\$380	\$375	
Average total assets from continuing operations (GAAP)	\$134,915	\$135,255	\$134,356	\$132,491	\$132,741	
Return on average total assets from continuing operations excluding notable items (non-GAAP)	1.25	%1.18	%1.15	%1.15	%1.15	%

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Figure 2. GAAP to Non-GAAP Reconciliations, continued

dollars in millions	Three months ended March 31, 2018
Common Equity Tier 1 under the Regulatory Capital Rules (estimates)	
Common Equity Tier 1 under current Regulatory Capital Rules	\$ 12,086
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Deferred tax assets and other intangible assets ^(d)	—
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules ^(e)	\$ 12,086
Net risk-weighted assets under current Regulatory Capital Rules	\$ 120,986
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Mortgage servicing assets ^(f)	700
All other assets	319
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules ^(e)	\$ 122,005
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules ^(e)	9.91 %

For the three months ended March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and (a) March 31, 2017, intangible assets exclude \$23 million, \$26 million, \$30 million, \$33 million, and \$38 million, respectively, of period-end purchased credit card relationships.

(b) Net of capital surplus.

For the three months ended March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and (c) March 31, 2017, average intangible assets exclude \$24 million, \$28 million, \$32 million, \$36 million, and \$40 million, respectively, of average purchased credit card relationships.

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

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

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

Long-term financial targets

Our long-term financial targets are as follows:

• Generate positive operating leverage and a cash efficiency ratio in the range of 54.0% to 56.0%;

• 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 15.00% to 18.00%.

Figure 3 shows the evaluation of our long-term financial targets for the three months ended March 31, 2018.

Figure 3. Evaluation of Our Long-Term Targets

Key Metrics ^(a)	1Q18	Targets
Positive operating leverage	62.9 %	54.0 - 56.0%
Cash efficiency ratio ^(b)		

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Moderate Risk Profile	Net loan charge-offs to average loans	.25	% .40 - .60%
Financial Returns	Return on average tangible common equity ^(b)	14.89 %	15.00 - 18.00%

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

(b) Non-GAAP measure; see Figure 2 entitled “GAAP to Non-GAAP Reconciliations” for reconciliation.

Strategic developments

Our actions and results during the first three months of 2018 supported our corporate strategy described in the “Introduction” section under the “Corporate strategy” heading on page 38 of our 2017 Form 10-K.

Total revenue was up 3.1% compared to the first quarter of last year driven by a higher net interest margin, solid loan growth, and strong performance from our fee-based businesses. Excluding purchase accounting accretion, net interest income was up \$43 million from the first quarter of 2017, driven by higher interest rates and well-managed deposit betas. The growth in average loans for the first quarter of 2018 was primarily in our commercial and industrial portfolio which was up 6.8% from a year ago, reflecting broad-based growth in commercial and industrial loans with middle-market clients. We had a record first quarter for investment banking and debt placement fees of \$143 million, an increase of 12.6% from the year-ago quarter, as we benefited from the acquisition of Cain Brothers as well as continued growth in our core franchise.

Net loan charge-offs were .25% of average loans for the first three months of 2018, down from .27% for the same period one-year ago and below our targeted range. Total net loan charge-offs decreased during the first three months of 2018 compared to the year-ago period. Total loans charged off decreased in our commercial lease financing, home equity loan, and consumer indirect loan portfolios. Partially offsetting these decreases in loan charge-offs were increases in total loans charged off in our commercial and industrial and real estate — residential mortgage loan portfolios. Total loan loss recoveries were down slightly from the year-ago quarter.

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Capital management remains a priority for 2018. 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 \$199 million of Common Share repurchases, including \$156 million of Common Share repurchases in the open market and \$43 million of Common Share repurchases related to employee equity compensation programs, in the first quarter of 2018 under this authorization.

Consistent with our 2017 capital plan, the Board declared a quarterly dividend of \$.105 per Common Share for the first quarter of 2018. In the second quarter of 2018, the Board plans to consider a potential increase in our quarterly common share dividend, up to \$.12 per share.

On March 29, 2018, we announced that we had entered into a definitive agreement to sell Key Insurance & Benefits Services, Inc. to USI Insurance Services. We acquired Key Insurance & Benefits Services, Inc. as a part of the 2016 merger with First Niagara. The transaction is subject to regulatory approvals and other customary closing conditions and is expected to close in the second quarter of 2018.

Demographics

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

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit and investment, lending, mortgage and home equity, credit card, and personalized wealth management products and business advisory services. Key Community Bank offers personal property and casualty insurance, such as home, auto, renters, watercraft, and umbrella policies. Key Community Bank also purchases retail auto sales contracts via a network of auto dealerships. These products and services are provided through our relationship managers and specialists working in our 15-state branch network, which is organized into ten internally defined geographic regions: Washington, Oregon/Alaska, Rocky Mountains, Indiana/Northwest Ohio/Michigan, Central/Southwest Ohio, East Ohio/Western Pennsylvania, Atlantic, Western New York, Eastern New York, and New England. In addition, some of these product capabilities are delivered by Key Corporate Bank to clients of Key Community Bank.

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

Further information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments is included in this report in Note 18 (“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 2017 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

The final rule to implement the Basel III international capital framework (“Basel III”) was effective January 1, 2015, with a multi-year transition period ending on December 31, 2018 (“Regulatory Capital Rules”). 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 2017 Form 10-K under the heading “Supervision and Regulation - Regulatory capital requirements.”

Under the Regulatory Capital Rules, standardized approach banking organizations, such as KeyCorp and KeyBank, are required to meet the minimum capital and leverage ratios set forth in Figure 4 below. At March 31, 2018, Key had an estimated Common Equity Tier 1 Capital Ratio of 9.91% under the fully phased-in Regulatory Capital Rules. Also at March 31, 2018, 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 4.

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Figure 4. Pro Forma Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In Regulatory Capital Rules

Ratios (including capital conservation buffer)	Key March 31, 2018 Pro forma	Minimum January 1, 2018	Phase-in Period	Minimum January 1, 2019
Common Equity Tier 1 ^(a)	9.91	% 4.5	None	4.5 %
Capital conservation buffer ^(b)		—	1/1/16-1/1/19	2.5
Common Equity Tier 1 + Capital conservation buffer		4.5	1/1/16-1/1/19	7.0
Tier 1 Capital	10.73	% 6.0	None	6.0
Tier 1 Capital + Capital conservation buffer		6.0	1/1/16-1/1/19	8.5
Total Capital	12.64	% 8.0	None	8.0
Total Capital + Capital conservation buffer		8.0	1/1/16-1/1/19	10.5
Leverage ^(c)	9.76	% 4.0	None	4.0

(a) See Figure 2 entitled “GAAP to Non-GAAP Reconciliations,” which presents the computation of Common Equity Tier 1 capital under the fully phased-in regulatory capital rules.

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

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

Revised prompt corrective action framework

The federal prompt corrective action (“PCA”) framework under the FDIA groups FDIC-insured depository institutions into one of five prompt corrective action capital categories: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized,” and “critically undercapitalized.” In addition to implementing the Basel III capital framework in the United States, the Regulatory Capital Rules also revised the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions such as KeyBank, with an effective date of January 1, 2015. The revised Prompt Corrective Action Framework table in Figure 5 identifies the capital category thresholds for a “well capitalized” and an “adequately capitalized” institution under the Prompt Corrective Action Framework.

Figure 5. "Well Capitalized" and "Adequately Capitalized" Capital Category Ratios under Revised PCA Framework

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

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

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

We believe that, as of March 31, 2018, KeyBank (consolidated) satisfied the risk-based and leverage capital requirements necessary to be considered “well capitalized” for purposes of the PCA framework. However, investors should not regard this determination as a representation of the overall financial condition or prospects of KeyBank because the prompt corrective action framework is intended to serve a limited supervisory function. Moreover, it is

important to note that the prompt corrective action framework does not apply to BHCs, like KeyCorp.

Recent regulatory capital-related developments

On September 27, 2017, the federal banking agencies issued a joint proposal to simplify certain aspects of the Regulatory Capital Rules for standardized approach banking organizations (the “Simplification Proposal”), including Key. In anticipation of the Simplification Proposal, on August 22, 2017, the agencies issued a companion proposal to extend the current capital treatment for certain items that are part of the Simplification Proposal and also subject to the multi-year transition period for the Regulatory Capital Rules, which ends on December 31, 2018 (the “Transitions Proposal”). The Transitions Proposal was published as a final rule in the Federal Register on November 21, 2017, and is expected to alleviate the burden that would have resulted from the continued phase-in of those capital requirements as the agencies seek public comment on and work to finalize the Simplification Proposal. The Simplification Proposal and the Transitions Proposal are discussed in more detail in Item 1. Business of our 2017 Form 10-K under the heading “Supervision and Regulation - Regulatory capital requirements - Recent regulatory capital-related developments.”

In December 2017, the Basel Committee released its final revisions to Basel III. The revisions seek to restore credibility in the calculation of risk-weighted assets and improve the comparability of regulatory capital ratios across banking organizations. The revisions are discussed in more detail in Item 1. Business of our 2017 Form 10-K under

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the heading “Supervision and Regulation - Regulatory capital requirements - Recent regulatory capital-related developments.”

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

Subsequently, in February 2018, the Basel Committee released for public consultation a proposal to update the Pillar 3 disclosure framework, to more appropriately align it to the changes adopted under the Basel Committee’s final revisions to Basel III. The public consultation period ends on May 25, 2018. Before any action is taken by the federal banking agencies with respect to the revised Pillar 3 disclosure framework, it first must be adopted in final form by the Basel Committee, and the federal agencies must determine whether and to what extent they will implement the final revisions to Basel III released by the Basel Committee in December 2017.

Capital planning and stress testing

On December 7, 2017, the Federal Reserve released for public comment a package of proposals that would increase the transparency of its stress testing program while maintaining the Federal Reserve’s ability to test the resilience of the nation’s largest, most complex banks. The proposals responded to public and industry calls for more transparency around the CCAR program. The proposals are discussed in more detail in Item 1. Business of our 2017 Form 10-K under the heading “Supervision and Regulation - Regulatory capital requirements - Recent developments in capital planning and stress testing.”

In a separate release, published April 10, 2018, the Federal Reserve invited comment on a proposal to integrate certain aspects of the Federal Reserve’s Regulatory Capital Rules with the CCAR and stress test rules, in order to simplify the overall capital framework that is currently applicable to banking organizations subject to the capital plan rule (including KeyCorp). Under the proposal, the Federal Reserve would (1) amend the capital conservation buffer requirement under the Regulatory Capital Rules by replacing the static risk-weighted assets component of the buffer with a new measure, the stress capital buffer, which would be based on the results of an individual banking organization’s annual supervisory stress test; (2) introduce a stress leverage buffer requirement that would replace the existing Tier 1 leverage requirement under CCAR; (3) modify certain assumptions under the supervisory stress test; (4) remove the 30% dividend payout ratio limitation as a criterion for heightened supervisory scrutiny of an organization’s capital plan; and (5) eliminate the CCAR quantitative objection.

Under the proposed rule, a banking organization would not be subject to any limitations on capital distributions and discretionary bonus payments if it satisfies all minimum capital requirements and its capital conservation requirement (as amended to incorporate the stress capital buffer), stress leverage buffer requirement, and, if applicable, the advanced approaches capital conservation buffer requirement and supplementary leverage ratio standard (the latter two of which do not apply to KeyCorp). If it is adopted as a final rule, the proposal would be effective December 31, 2018; however, the stressed capital buffer and stress leverage buffer requirements would generally not be effective until October 1, 2019. Key expects that the proposal would have a marginally favorable impact on its capital requirements.

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.

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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 March 31, 2018, 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 was scheduled to be effective on January 1, 2018; however, it has not been adopted in final form. 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, usually by December 31 of each year. For 2015, these resolution plans, the third required from KeyCorp and KeyBank, were submitted on December 1, 2015. KeyCorp and KeyBank were not required to submit resolution plans for 2016 because the FDIC and Federal Reserve deferred such requirement (for 38 firms, including KeyCorp) until December 2017 and the FDIC deferred such requirement (for a number of insured depository institutions, including KeyBank) until July 1, 2018. On December 1, 2017, KeyCorp submitted its resolution plan to the Federal Reserve and the FDIC. 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/supervisionreg/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 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 was required to be in compliance with the guidelines not later than January 1, 2018. We believe that KeyBank is in compliance with the guidelines.

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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).

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. The FDIC has been releasing Frequently Asked Questions for Part 370 on a rolling basis, and has committed to continue this practice as institutions subject to the rule present issues associated with its implementation that require FDIC consultation.

Supervision and governance

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

The governance and controls component of the LFI Rating System is the subject of two separate, but related proposals: (1) proposed guidance regarding supervisory expectations for boards of directors of large financial institutions; and (2) proposed guidance regarding core principles for effective senior management, business management, and independent risk management and controls for large financial institutions.

On January 4, 2018, the Federal Reserve released the final component of the proposed LFI Rating System — proposed guidance regarding core principles for effective senior management, business management, and independent risk management and controls for large financial institutions. The proposals and guidance are discussed in more detail in Item 1. Business of our 2017 Form 10-K under the heading "Supervision and Regulation - Other Regulatory Developments under the Dodd-Frank Act - Supervision and governance."

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

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standard requirement for financial institutions and their advisors was to become effective April 10, 2017. However, in response to a Presidential Order, the Department of Labor extended the effective date to June 9, 2017. The contract provisions were required to be in place by January 1, 2018. However, on November 29, 2017, the Department of Labor extended the applicability of the contract rules until July 1, 2019, while it continues to review requested comments concerning whether to modify, further delay, or rescind these rules in whole or in part. On March 15, 2018, the United States Court of Appeals for the Fifth Circuit invalidated the rule in its entirety. Other federal courts have upheld the rule. It is unclear what impact these decisions will have on the rules.

Results of Operations

Earnings overview

The following chart provides a reconciliation of net income from continuing operations attributable to Key common shareholders for the three months ended March 31, 2017, to the three months ended March 31, 2018 (dollars in millions):

The following discussion explains the key factors that caused these elements to change.

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 \$126, an amount that, if taxed at the statutory federal income tax rate of 21%, would yield \$100. Prior to 2018, \$100 of tax-exempt income would be presented as \$154, an amount that, if taxed at the previous statutory federal income tax rate of 35%, would yield \$100.

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Figure 6 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.

TE net interest income was \$952 million for the first quarter of 2018, and the net interest margin was 3.15%, compared to TE net interest income of \$929 million and a net interest margin of 3.13% for the first quarter of 2017, reflecting the benefit from higher interest rates and low deposit betas. First quarter 2018 net interest income included \$33 million of purchase accounting accretion, a decline of \$20 million from the first quarter of 2017. In 2018, we expect net interest income to be in the range of \$3.95 billion to \$4.05 billion.

Average loans were \$86.9 billion for the first quarter of 2018, an increase of \$794 million compared to the first quarter of 2017, reflecting broad-based growth in commercial and industrial loans with middle-market clients, as well as strength in auto lending as the company expands into existing geographies and dealer relationships. In addition, reductions in commercial real estate loans over the past year reflect significantly higher debt placements and paydowns. For 2018, we anticipate average loans to be in the range of \$88.5 billion to \$89.5 billion.

Average deposits totaled \$102.6 billion for the first quarter of 2018, an increase of \$478 million compared to the year-ago quarter. Certificates of deposits and other time deposits increased \$1.5 billion, reflecting strength in Key's retail banking franchise and growth from commercial relationships. Additionally, consumer noninterest-bearing balances grew 10% from the prior year. NOW and money-market deposit accounts declined \$792 million, partially driven by a shift to higher-yielding deposit products and the managed exit of certain higher cost corporate and public sector deposits. For 2018, we anticipate average deposits to be in the range of \$104.5 billion to \$105.5 billion.

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Figure 6. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates from Continuing Operations

dollars in millions	First Quarter 2018			Fourth Quarter 2017		
	Average Balance	Interest ^(a)	Yield/Rate ^(a)	Average Balance	Interest ^(a)	Yield/Rate ^(a)
ASSETS						
Loans ^{(b), (c)}						
Commercial and industrial ^(d)	\$42,733	\$ 434	4.11 %	\$41,289	\$ 417	4.01 %
Real estate — commercial mortgage	14,085	165	4.76	14,386	167	4.60
Real estate — construction	1,957	22	4.64	1,967	23	4.55
Commercial lease financing	4,663	41	3.53	4,687	45	3.86
Total commercial loans	63,438	662	4.23	62,329	652	4.15
Real estate — residential mortgage	5,479	54	3.95	5,474	54	3.95
Home equity loans	11,877	134	4.56	12,128	134	4.39
Consumer direct loans	1,766	33	7.53	1,782	32	7.15
Credit cards	1,080	30	11.32	1,061	30	11.14
Consumer indirect loans	3,287	35	4.29	3,232	36	4.42
Total consumer loans	23,489	286	4.91	23,677	286	4.80
Total loans	86,927	948	4.41	86,006	938	4.33
Loans held for sale	1,187	12	4.10	1,420	13	3.81
Securities available for sale ^{(b), (e)}	17,889	95	2.06	18,447	93	1.97
Held-to-maturity securities ^(b)	12,041	69	2.30	11,121	61	2.20
Trading account assets	907	7	2.99	898	6	2.72
Short-term investments	2,048	8	1.51	3,684	12	1.29
Other investments ^(e)	723	6	2.96	725	5	2.80
Total earning assets	121,722	1,145	3.78	122,301	1,128	3.66
Allowance for loan and lease losses	(875)			(871)		
Accrued income and other assets	14,068			13,825		
Discontinued assets	1,304			1,358		
Total assets	\$136,219			\$136,613		
LIABILITIES						
NOW and money market deposit accounts	\$53,503	46	.34	\$53,601	40	.29
Savings deposits	6,232	5	.29	6,372	3	.24
Certificates of deposit (\$100,000 or more)	6,972	27	1.58	6,776	26	1.50
Other time deposits	4,865	13	1.12	4,771	13	1.05
Total interest-bearing deposits	71,572	91	.51	71,520	82	.45
Federal funds purchased and securities sold under repurchase agreements	1,421	4	1.11	360	—	.08
Bank notes and other short-term borrowings	1,342	6	1.87	693	3	1.72
Long-term debt ^{(f), (g)}	12,465	92	2.95	13,140	91	2.76
Total interest-bearing liabilities	86,800	193	.90	85,713	176	.81
Noninterest-bearing deposits	30,984			32,278		
Accrued expense and other liabilities	2,241			1,994		
Discontinued liabilities ^(g)	1,304			1,359		
Total liabilities	121,329			121,344		
EQUITY						
Key shareholders' equity	14,889			15,268		
Noncontrolling interests	1			1		

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Total equity	14,890		15,269	
Total liabilities and equity	\$136,219		\$136,613	
Interest rate spread (TE)		2.88 %		2.85 %
Net interest income (TE) and net interest margin (TE)	952	3.15 %	952	3.09 %
TE adjustment ^(b)	8		14	
Net interest income, GAAP basis	\$ 944		\$ 938	

- (a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g), calculated using a matched funds transfer pricing methodology.
- (b) Interest income on tax-exempt securities and loans has been adjusted to a TE basis using the statutory federal income tax rate in effect for that period.
- (c) For purposes of these computations, nonaccrual loans are included in average loan balances. Commercial and industrial average balances include \$120 million, \$119 million, \$117 million, \$117 million, and (d) \$114 million of assets from commercial credit cards for the three months ended March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017, respectively.

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Figure 6. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates from Continuing Operations

Third Quarter 2017			Second Quarter 2017			First Quarter 2017		
Average Balance	Interest ^(a)	Yield/Rate ^(a)	Average Balance	Interest ^(a)	Yield/Rate ^(a)	Average Balance	Interest ^(a)	Yield/Rate ^(a)
\$41,416	\$ 414	3.97 %	\$40,666	\$ 409	4.04 %	\$40,002	\$ 373	3.77 %
14,850	169	4.51	15,096	187	4.97	15,187	164	4.39
2,054	23	4.51	2,204	31	5.51	2,353	26	4.54
4,694	46	3.89	4,690	50	4.33	4,635	44	3.76
63,014	652	4.11	62,656	677	4.34	62,177	607	3.95
5,493	54	3.92	5,509	52	3.77	5,520	54	3.94
12,314	136	4.41	12,473	135	4.31	12,611	131	4.22
1,774	33	7.26	1,743	31	7.07	1,762	30	6.97
1,049	30	11.34	1,044	29	11.04	1,067	29	11.06
3,170	37	4.64	3,077	38	5.02	2,996	37	4.91
23,800	290	4.85	23,846	285	4.77	23,956	281	4.75
86,814	942	4.31	86,502	962	4.46	86,133	888	4.17
1,607	17	4.13	1,082	9	3.58	1,188	13	4.28
18,574	91	1.96	17,997	90	1.97	19,181	95	1.95
10,469	55	2.12	10,469	55	2.09	9,988	51	2.04
889	7	2.74	1,042	7	3.00	968	7	2.75
2,166	6	1.21	1,970	5	.96	1,610	3	.79
728	5	2.46	687	3	1.87	709	4	2.26
121,247	1,123	3.68	119,749	1,131	3.78	119,777	1,061	3.57
(868)			(864)			(855)		
13,977			13,606			13,819		
1,417			1,477			1,540		
\$135,773			\$133,968			\$134,281		
\$53,826	37	.27	\$54,416	34	.25	\$54,295	32	.24
6,697	5	.25	6,854	4	.21	6,351	1	.10
6,402	21	1.31	6,111	19	1.23	5,627	16	1.16
4,664	9	.81	4,650	9	.77	4,706	9	.76
71,589	72	.40	72,031	66	.36	70,979	58	.33
456	—	.23	466	—	.23	795	1	.32
865	3	1.49	1,216	4	1.43	1,802	5	1.06
12,631	86	2.75	11,046	74	2.68	10,833	68	2.54
85,541	161	.75	84,759	144	.68	84,409	132	.63
31,516			30,748			31,099		
2,057			1,782			2,048		
1,417			1,477			1,540		
120,531			118,766			119,096		
15,241			15,200			15,184		
1			2			1		
15,242			15,202			15,185		
\$135,773			\$133,968			\$134,281		

	2.93 %		3.10 %		2.94 %
962	3.15 %	987	3.30 %	929	3.13 %
14		14		11	
\$ 948		\$ 973		\$ 918	

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

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

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

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Figure 7 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 7. Components of Net Interest Income Changes from Continuing Operations

in millions	From three months ended March 31, 2017 to three months ended March 31, 2018		
	Average Volume	Yield/ Rate	Net Change ^(a)
INTEREST INCOME			
Loans	\$8	\$52	\$60
Loans held for sale	—	(1)	(1)
Securities available for sale	(7)	7	—
Held-to-maturity securities	11	7	18
Trading account assets	—	—	—
Short-term investments	1	4	5
Other investments	—	2	2
Total interest income (TE)	13	71	84
INTEREST EXPENSE			
NOW and money market deposit accounts	—	14	14
Savings deposits	—	4	4
Certificates of deposit (\$100,000 or more)	4	7	11
Other time deposits	—	4	4
Total interest-bearing deposits	4	29	33
Federal funds purchased and securities sold under repurchase agreements	1	2	3
Bank notes and other short-term borrowings	(2)	3	1
Long-term debt	11	13	24
Total interest expense	14	47	61
Net interest income (TE)	\$(1)	\$24	\$23

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

Provision for credit losses

Our provision for credit losses was \$61 million for the three months ended March 31, 2018, compared to \$63 million for the three months ended March 31, 2017. The decrease of \$2 million in our provision for credit losses was related to a decrease in net loan-charge offs during the first quarter of 2018 compared to one year ago. In 2018, we expect the provision to slightly exceed net loan charge-offs to provide for loan growth.

Noninterest income

As shown in Figure 8, noninterest income was \$601 million for the first quarter of 2018, compared to \$577 million for the year-ago quarter. Noninterest income represented 39% of total revenue for the three months ended March 31, 2018, compared to 38% for the three months ended March 31, 2017. In 2018, we expect noninterest income to be in

the range of \$2.5 billion to \$2.6 billion.

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

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Figure 8. Noninterest Income

Other noninterest income includes operating lease income and other leasing gains, corporate services income, corporate-owned life insurance income, consumer mortgage income, mortgage servicing fees, net gains (losses) (a) from principal investing, and other income. See the "Consolidated Statements of Income" in Item 1. Financial Statements of this report.

Trust and investment services income

Trust and investment services income consists of brokerage commissions, trust and asset management fees, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 9. For the three months ended March 31, 2018, trust and investment services income decreased \$2 million, or 1.5%, compared to the same period one year ago, primarily due to a decrease in fixed income brokerage commissions.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At March 31, 2018, our bank, trust, and registered investment advisory subsidiaries had assets under management of \$39.0 billion, compared to \$37.4 billion at March 31, 2017. As shown in Figure 9, the increase in assets under management was primarily attributable to market growth over the past twelve months.

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Figure 9. Assets Under Management

in millions	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Assets under management by investment type:					
Equity	\$23,629	\$24,081	\$23,342	\$22,824	\$22,522
Securities lending	837	947	876	807	1,095
Fixed income	11,098	10,930	11,009	10,819	10,497
Money market	3,439	3,630	3,433	3,163	3,303
Total assets under management	\$39,003	\$39,588	\$38,660	\$37,613	\$37,417

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 increased \$16 million, or 12.6%, from the year-ago quarter, primarily related to the Cain Brothers acquisition during the fourth quarter of 2017, as well as continued growth in our core franchise. In the first quarter of 2018, commercial mortgage banking and mergers and acquisitions advisory fees contributed to the strong performance.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, decreased \$3 million, or 4.6%, from the year-ago quarter. Cards and payments income and other expense both declined due to the adoption of the new revenue recognition accounting standard. The new accounting standard had no net impact to income during the first quarter of 2018. Excluding the impact of the new revenue recognition accounting standard, cards and payments increased \$8 million from the year-ago quarter driven by strength in our core products and the impact of the Key Merchant Services acquisition in the second quarter of 2017.

Service charges on deposit accounts

Service charges on deposit accounts increased \$2 million, or 2.3%, for the three months ended March 31, 2018, compared to the same period one year ago. The increase from the three months ended March 31, 2017, was driven by an increase in account analysis fees.

Other noninterest income

Other noninterest income includes operating lease income and other leasing gains, corporate services income, corporate-owned life insurance income, consumer mortgage income, mortgage servicing fees, net gains (losses) from principal investing, and other income. Other noninterest income increased \$11 million, or 6.7%, from the year-ago quarter. Operating lease income and other leasing gains contributed to the increase, up \$9 million from the year-ago period, driven by higher originations. Corporate services income grew \$8 million related to higher loan and derivative trading income. These increases were partially offset by a decline in other income.

Noninterest expense

As shown in Figure 10, noninterest expense was \$1.0 billion for the first quarter of 2018 and first quarter of 2017. Figure 10 gives a breakdown of our major categories of noninterest expense as a percentage of total noninterest expense for the three months ended March 31, 2018. In 2018, we expect noninterest expense to be in the range of \$3.85 billion to \$3.95 billion.

Beginning in the first quarter of 2018, we no longer separately report merger-related charges.

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Figure 10. Noninterest Expense

Other noninterest expense includes equipment, operating lease expense, marketing, FDIC assessment, intangible (a) asset amortization, OREO expense, net, and other expense. See the "Consolidated Statements of Income" in Item 1. Financial Statements of this report.

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

Figure 11. Merger-Related Charges

	Three months ended March 31, 2018
dollars in millions	2018
Personnel	\$ 30
Net occupancy	5
Business services and professional fees	5
Computer processing	5
Marketing	6
Other nonpersonnel expense	30
Noninterest expense	81
Total merger-related charges	\$ 81

Personnel

As shown in Figure 12, personnel expense, the largest category of our noninterest expense, increased by \$38 million, or 6.8%, for the first quarter of 2018 compared to the year-ago quarter. This increase was largely due to recent acquisitions, as well as accelerated technology investments and higher performance-based compensation.

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Figure 12. Personnel Expense

dollars in millions	Three months ended		Change	
	2018	2017	Amount	Percent
Salaries and contract labor	\$339	\$324	\$15	4.6 %
Incentive and stock-based compensation	145	127	18	14.2
Employee benefits	105	96	9	9.4
Severance	5	9	(4)	(44.4)
Total personnel expense	\$594	\$556	\$38	6.8 %
Merger-related charges	—	30	(30)	N/M
Total personnel expense excluding merger-related charges	\$594	\$526	\$68	12.9 %

Net occupancy

Net occupancy expense decreased \$9 million, or 10.3%, for the first quarter of 2018, compared to the same period one year ago. This decrease was primarily due to lower property reserve and rental expenses.

Other noninterest expense

Other noninterest expense includes equipment, operating lease expense, marketing, FDIC assessment, intangible asset amortization, OREO expenses, and other miscellaneous expense categories. Other noninterest expense decreased \$23 million, or 8.7%, from the year-ago quarter. Other expense declined from a year ago, primarily driven by a \$20 million philanthropic contribution made in the first quarter of 2017. These declines are partially offset by higher marketing expense, higher operating lease expenses driven by increased volumes, and costs related to recent acquisitions.

Income taxes

We recorded tax expense from continuing operations of \$62 million for the first quarter of 2018 and \$94 million for the first quarter of 2017.

Our federal tax expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance and credits associated with renewable energy and low-income housing investments, and make periodic adjustments to our tax reserves. Tax expense for the three months ended March 31, 2018, and March 31, 2017, was affected by net discrete income tax benefits of \$26 million and \$19 million, respectively. Excluding those benefits, the tax expense for the first quarter of 2018 was \$88 million.

Additional information pertaining to how our tax expense (benefit) and the resulting effective tax rates were derived is included in Note 14 (“Income Taxes”) beginning on page 156 of our 2017 Form 10-K.

Line of Business Results

This section summarizes the financial performance of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 18 (“Line of Business Results”) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments,

and explains “Other Segments” and “Reconciling Items.”

Figure 13 summarizes the contribution made by each major business segment to our “taxable-equivalent revenue from continuing operations” and “income (loss) from continuing operations attributable to Key” for the three-month periods ended March 31, 2018, and March 31, 2017.

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Figure 13. Major Business Segments — Taxable-Equivalent Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

dollars in millions	Three months ended		Change	
	March 31, 2018	2017	Amount	Percent
REVENUE FROM CONTINUING OPERATIONS (TE)				
Key Community Bank	\$973	\$905	\$68	7.5 %
Key Corporate Bank	559	578	(19)	(3.3)
Other Segments	22	29	(7)	(24.1)
Total Segments	1,554	1,512	42	2.8
Reconciling Items ^(a)	(1)	(6)	5	N/M
Total	\$1,553	\$1,506	\$47	3.1 %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY				
Key Community Bank	\$196	\$147	\$49	33.3 %
Key Corporate Bank	207	180	27	15.0
Other Segments	19	21	(2)	(9.5)
Total Segments	422	348	74	21.3
Reconciling Items ^(a)	(6)	(24)	18	N/M
Total	\$416	\$324	\$92	28.4 %

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

Key Community Bank summary of operations

As shown in Figure 14, Key Community Bank recorded net income attributable to Key of \$196 million for the first quarter of 2018, compared to \$147 million for the same period one year ago.

TE net interest income increased in the first quarter of 2018 compared to the first quarter of 2017, primarily attributable to the benefit from higher interest rates and growth in loans. Average loans and leases increased from the year-ago quarter largely driven by a \$1.1 billion, or 6.1%, increase in commercial and industrial loans. Average deposit balances increased from the year-ago quarter driven by increases in certificates of deposits and other time deposits.

The provision for credit losses increased slightly from the year-ago quarter while net loan charge-offs were flat as overall credit quality was stable.

Noninterest income was up from the year-ago quarter, driven by higher assets under management from market growth, as well as increases across several fee categories. During the first quarter of 2018, cards and payments income and other expense both declined due to the adoption of the new revenue recognition accounting standard resulting in no net impact to income. Excluding the impact of the new revenue recognition accounting standard, cards and payments income increased from the year-ago quarter driven by strength in our core products and the impact of the Key Merchant Services acquisition in the second quarter of 2017.

Noninterest expense increased from the year-ago quarter, as personnel expense increased \$17 million driven by recent acquisitions and ongoing investments, including our residential mortgage platform and HelloWallet. Nonpersonnel expense increased \$26 million driven by technology development costs, marketing expenses, higher volume related expenses, and the impact of recent acquisitions, including HelloWallet and Key Merchant Services.

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Figure 14. Key Community Bank

dollars in millions	Three months ended		Change		
	March 31, 2018	2017	Amount	Percent	
SUMMARY OF OPERATIONS					
Net interest income (TE)	\$ 688	\$ 628	\$ 60	9.6	%
Noninterest income	285	277	8	2.9	
Total revenue (TE)	973	905	68	7.5	
Provision for credit losses	48	46	2	4.3	
Noninterest expense	668	625	43	6.9	
Income (loss) before income taxes (TE)	257	234	23	9.8	
Allocated income taxes (benefit) and TE adjustments	61	87	(26)	(29.9)	
Net income (loss) attributable to Key	\$ 196	\$ 147	\$ 49	33.3	%
AVERAGE BALANCES					
Loans and leases	\$47,680	\$47,085	\$595	1.3	%
Total assets	51,681	51,063	618	1.2	
Deposits	79,945	79,148	797	1.0	
Assets under management at period end	\$39,003	\$37,417	\$1,586	4.2	%

ADDITIONAL KEY COMMUNITY BANK DATA

dollars in millions	Three months ended		Change		
	March 31, 2018	2017	Amount	Percent	
NONINTEREST INCOME					
Trust and investment services income	\$ 104	\$ 98	\$ 6	6.1	%
Services charges on deposit accounts	76	75	1	1.3	
Cards and payments income	51	55	(4)	(7.3)	
Other noninterest income	54	49	5	10.2	
Total noninterest income	\$ 285	\$ 277	\$ 8	2.9	%
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	\$44,291	\$44,780	\$(489)	(1.1)	%
Savings deposits	5,056	5,268	(212)	(4.0)	
Certificates of deposits (\$100,000 or more)	4,961	3,879	1,082	27.9	
Other time deposits	4,856	4,692	164	3.5	
Noninterest-bearing deposits	20,781	20,529	252	1.2	
Total deposits	\$79,945	\$79,148	\$797	1.0	%
HOME EQUITY LOANS					
Average balance	\$11,763	\$12,456			
Combined weighted-average loan-to-value ratio (at date of origination)	70	% 70	%		
Percent first lien positions	60	60			
OTHER DATA					
Branches	1,192	1,216			
Automated teller machines	1,569	1,594			

Key Corporate Bank summary of operations

As shown in Figure 15, Key Corporate Bank recorded net income attributable to Key of \$207 million for the first quarter of 2018, compared to \$180 million for the same period one year ago.

TE net interest income decreased in the first quarter of 2018 compared to the first quarter of 2017, primarily attributable to lower spreads on earning assets and lower purchase accounting accretion. Average loans and leases increased from the year-ago quarter largely driven by a \$1.2 billion, or 5.2%, increase in commercial and industrial loans. Average deposit balances decreased from the year-ago quarter driven by the managed exit of higher cost corporate and public sector deposits.

The provision for credit losses and net loan charge-offs both decreased slightly from the year-ago quarter as overall credit quality continued to improve.

Noninterest income was up from the year-ago quarter, driven by higher investment banking and debt placement fees related to the acquisition of Cain Brothers as well as continued growth in our core franchise. Operating lease income and other leasing gains increased due to higher originations, and corporate services income increased due

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to higher derivatives revenues. These increases were partially offset by a decline in other noninterest income related to lower gains from certain real estate investments.

Noninterest expense increased from the year-ago quarter, largely driven by higher operating lease expense and intangible asset amortization.

Figure 15. Key Corporate Bank

dollars in millions	Three months ended		Change	
	March 31, 2018	2017	Amount	Percent
SUMMARY OF OPERATIONS				
Net interest income (TE)	\$272	\$304	\$(32)	(10.5)%
Noninterest income	287	274	13	4.7
Total revenue (TE)	559	578	(19)	(3.3)
Provision for credit losses	14	18	(4)	(22.2)
Noninterest expense	314	304	10	3.3
Income (loss) before income taxes (TE)	231	256	(25)	(9.8)
Allocated income taxes and TE adjustments	24	76	(52)	(68.4)
Net income (loss)	\$207	\$180	\$27	15.0
Net income (loss) attributable to Key	\$207	\$180	\$27	15.0 %
AVERAGE BALANCES				
Loans and leases	\$38,260	\$37,688	\$572	1.5 %
Loans held for sale	1,118	1,097	21	1.9
Total assets	45,549	44,124	1,425	3.2
Deposits	20,815	21,002	(187)	(.9)%

ADDITIONAL KEY CORPORATE BANK DATA

dollars in millions	Three months ended		Change	
	March 31, 2018	2017	Amount	Percent
NONINTEREST INCOME				
Trust and investment services income	\$29	\$37	\$(8)	(21.6)%
Investment banking and debt placement fees	141	124	17	13.7
Operating lease income and other leasing gains	27	21	6	28.6
Corporate services income	43	38	5	13.2
Service charges on deposit accounts	13	12	1	8.3
Cards and payments income	11	9	2	22.2
Payments and services income	67	59	8	13.6
Mortgage servicing fees	17	16	1	6.3
Other noninterest income	6	17	(11)	(64.7)
Total noninterest income	\$287	\$274	\$13	4.7 %

Other Segments

Other Segments consist of Corporate Treasury, Key's Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of \$19 million for the first quarter of 2018, compared to \$21 million for the same period last year.

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Financial Condition

Loans and loans held for sale

Figure 16. Breakdown of Loans at March 31, 2018

(a) Other consumer loans include Consumer direct loans, Credit cards, and Consumer indirect loans. See Note 3 (“Loans and Loans Held for Sale”) Item 1. Financial Statements of this report.

At March 31, 2018, total loans outstanding from continuing operations were \$88.1 billion, compared to \$86.4 billion at December 31, 2017. For more information on balance sheet carrying value, see Note 1 (“Summary of Significant Accounting Policies”) under the headings “Loans” and “Loans Held for Sale” on page 100 of our 2017 Form 10-K.

Commercial loan portfolio

Commercial loans outstanding were \$64.8 billion at March 31, 2018, an increase of \$2.0 billion, or 3.3%, compared to December 31, 2017, primarily driven by an increase in commercial and industrial loans. Figure 17 provides our commercial loan portfolios by industry classification at March 31, 2018, and December 31, 2017.

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Figure 17. Commercial Loans by Industry

March 31, 2018

dollars in millions	Commercial and industrial	Commercial real estate	Commercial lease financing	Total commercial loans	Percent of total
Industry classification:					
Agricultural	\$ 687	\$ 149	\$ 90	\$ 926	1.4 %
Automotive	2,206	483	61	2,750	4.2
Business products	2,053	151	51	2,255	3.5
Business services	2,786	154	236	3,176	4.9
Commercial real estate	6,061	10,242	22	16,325	25.2
Construction materials and contractors	1,702	331	175	2,208	3.4
Consumer discretionary	3,697	579	555	4,831	7.5
Consumer services	2,990	952	214	4,156	6.4
Equipment	1,542	131	112	1,785	2.7
Financial	4,765	62	338	5,165	8.0
Healthcare	3,396	2,173	367	5,936	9.2
Materials manufacturing and mining	1,903	99	132	2,134	3.3
Media	404	22	38	464	.7
Oil and gas	1,217	45	50	1,312	2.0
Public exposure	2,745	52	1,029	3,826	5.9
Technology	599	10	8	617	1.0
Transportation	1,444	227	782	2,453	3.8
Utilities	3,505	6	338	3,849	5.9
Other	611	—	—	611	1.0
Total	\$ 44,313	\$ 15,868	\$ 4,598	\$ 64,779	100.0 %

December 31, 2017

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

Total	\$ 41,859	\$ 16,048	\$ 4,826	\$ 62,733	100.0 %
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Commercial and industrial. Commercial and industrial loans are the largest component of our loan portfolio, representing 50% of our total loan portfolio at March 31, 2018, and 48% at December 31, 2017. This portfolio is approximately 83% variable rate and consists of loans originated in both Key Corporate Bank and Key Community Bank to large corporate, middle market, and small business clients.

Commercial and industrial loans totaled \$44.3 billion at March 31, 2018, an increase of \$2.5 billion, or 5.9%, compared to December 31, 2017. The growth was broad-based and spread across most industry categories, including increased lending in the financial, commercial real estate, and utilities industries, which combined accounted for approximately 65% of the growth at March 31, 2018.

Commercial real estate loans. Our commercial real estate portfolio includes both mortgage and construction loans, and is originated through two primary sources: our 15-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of commercial real estate located both within and beyond the branch system. Approximately 69% of our average commercial real estate loans are generated by our KeyBank Real Estate Capital line of business. Nonowner-occupied properties, generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties, represented 79% of total commercial real estate loans outstanding at March 31, 2018. Construction loans, which provide a stream of funding for properties not fully leased at origination to support debt service payments over the term of the contract or project, represented 12% of commercial real estate loans at period end.

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At March 31, 2018, commercial real estate loans totaled \$15.9 billion, which includes \$1.9 billion of construction loans. Compared to December 31, 2017, this portfolio decreased \$180 million, or 1.1%. We continue to focus primarily on owners of completed and stabilized commercial real estate in accordance with our relationship strategy.

As shown in Figure 18, our commercial real estate loan portfolio includes various property types and geographic locations of the underlying collateral. These loans include commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank.

Figure 18. Commercial Real Estate Loans

dollars in millions	Geographic Region							Total	Percent of Total	Construction	Commercial Mortgage	
	West	Southwest	Central	Midwest	Southeast	Northeast	National					
March 31, 2018												
Nonowner-occupied:												
Retail properties	\$220	\$129	\$118	\$191	\$205	\$834	\$313	\$2,010	12.7	%	\$255	\$1,755
Multifamily properties	441	234	770	409	802	1,982	238	4,876	30.7		1,107	3,769
Health facilities	98	—	55	157	211	886	453	1,860	11.7		75	1,785
Office buildings	251	13	87	121	165	1,017	64	1,718	10.8		125	1,593
Warehouses	71	25	20	101	68	343	92	720	4.5		37	683
Manufacturing facilities	9	—	5	2	22	72	66	176	1.1		9	167
Hotels/Motels	39	—	26	—	1	194	34	294	1.9		5	289
Residential properties	—	—	—	3	19	166	—	188	1.2		76	112
Land and development	23	—	5	3	3	69	—	103	.7		74	28
Other	5	—	29	13	2	335	205	589	3.7		6	584
Total nonowner-occupied	1,157	401	1,115	1,000	1,498	5,898	1,465	12,534	79.0		1,769	10,765
Owner-occupied	881	10	268	547	44	1,584	—	3,334	21.0		102	3,232
Total	\$2,038	\$411	\$1,383	\$1,547	\$1,542	\$7,482	\$1,465	15,868	100.0	%	\$1,871	\$13,997
December 31, 2017												
Total	\$2,071	\$387	\$1,320	\$1,730	\$1,939	\$7,758	\$843	\$16,048			\$1,960	\$14,088
March 31, 2018												
Nonowner-occupied:												
Nonperforming loans	—	—	—	\$1	\$10	\$11	—	\$22	N/M		—	\$22
Accruing loans past due 90 days or more	\$—	—	—	—	—	10	—	10	N/M		1	9
Accruing loans past due 30 through 89 days	—	—	—	2	3	43	—	48	N/M		\$34	14

West – Alaska, California, Hawaii, Idaho, Montana, Oregon, Washington, and Wyoming

Southwest – Arizona, Nevada, and New Mexico

Central – Arkansas, Colorado, Oklahoma, Texas, and Utah

Midwest – Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin

Southeast – Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, Washington D.C., and West Virginia

Northeast – Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont

National – Accounts in three or more regions

Consumer loan portfolio

Consumer loans outstanding decreased by \$362 million, or 1.5%, from December 31, 2017, driven by continued declines in the home equity loan portfolio, largely the result of pay downs on home equity lines of credit.

The home equity portfolio is comprised of loans originated by our Key Community Bank within our 15-state footprint and is the largest segment of our consumer loan portfolio, representing 50% of consumer loans outstanding at March 31, 2018.

As shown in Figure 14, we held the first lien position for approximately 60% of the Key Community Bank home equity portfolio at both March 31, 2018, and March 31, 2017. For loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent FICO scores as well as updated loan-to-value ratios. This information is used in establishing the ALLL. Our methodology is described in Note 1 (“Summary of Significant Accounting Policies”) under the heading “Allowance for Loan and Lease Losses” beginning on page 102 of our 2017 Form 10-K.

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Figure 19. Consumer Loans by State

March 31, 2018	Real estate mortgage	Home equity loans	Consumer direct loans	Consumer Credit cards	Consumer indirect loans	Total
State						
New York	\$ 1,204	\$3,054	\$ 379	\$385	\$ 746	\$5,768
Ohio	435	1,619	382	239	298	2,973
Washington	662	1,772	223	99	14	2,770
Pennsylvania	323	775	68	45	233	1,444
California	49	34	16	4	50	153
Connecticut	811	416	19	19	151	1,416
Colorado	227	522	78	33	3	863
Oregon	342	918	82	43	3	1,388
Texas	4	23	8	3	22	60
New Jersey	22	23	13	3	514	575
Other	1,394	2,564	490	195	1,257	5,900
Total	\$ 5,473	\$11,720	\$ 1,758	\$1,068	\$ 3,291	\$23,310
December 31, 2017						
Total	\$ 5,483	\$12,028	\$ 1,794	\$1,106	\$ 3,261	\$23,672

Loan sales

As shown in Figure 20, during the first three months of 2018, we sold \$2.7 billion of loans. Sales of loans classified as held for sale generated net gains of \$44 million in the first three months of 2018.

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

- our business strategy for particular lending areas;
- whether particular lending businesses meet established performance standards or fit with our relationship banking strategy;
- our A/LM needs;
- the cost of alternative funding sources;
- the level of credit risk;
- capital requirements; and
- market conditions and pricing.

Figure 20 summarizes our loan sales for the first three months of 2018 and all of 2017.

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

in millions	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2018					
First quarter	\$ 141	\$ 2,251	\$ 66	\$ 284	\$2,742
Total	\$ 141	\$ 2,251	\$ 66	\$ 284	\$2,742
2017					
Fourth quarter	\$ 88	\$ 3,394	\$ 81	\$ 275	\$3,838

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Third quarter	337	2,534	93	279	3,243
Second quarter	205	2,097	14	230	2,546
First quarter	49	2,011	83	194	2,337
Total	\$ 679	\$ 10,036	\$ 271	\$ 978	\$ 11,964

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Figure 21 shows loans that are either administered or serviced by us, but not recorded on the balance sheet; this includes loans that were sold.

Figure 21. Loans Administered or Serviced

in millions	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Commercial real estate loans	\$246,089	\$238,718	\$224,361	\$218,667	\$218,387
Residential mortgage	4,585	4,582	4,458	4,345	4,272
Education loans	888	932	974	1,019	1,067
Commercial lease financing	873	862	856	833	916
Commercial loans	498	488	458	446	427
Total	\$252,933	\$245,582	\$231,107	\$225,310	\$225,069

In the event of default by a borrower, we are subject to recourse with respect to approximately \$3.4 billion of the \$252.9 billion of loans administered or serviced at March 31, 2018. Additional information about this recourse arrangement is included in Note 15 (“Contingent Liabilities and Guarantees”) under the heading “Recourse agreement with FNMA.”

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as “mortgage servicing fees”) from fees for servicing or administering loans. This fee income is reduced by the amortization of related servicing assets. In addition, we earn interest income from investing funds generated by escrow deposits collected in connection with the servicing loans. Additional information about our mortgage servicing assets is included in Note 8 (“Mortgage Servicing Assets”).

Securities

Our securities portfolio totaled \$30.1 billion at March 31, 2018, compared to \$30.0 billion at December 31, 2017. Available-for-sale securities were \$17.9 billion at March 31, 2018, compared to \$18.1 billion at December 31, 2017. Held-to-maturity securities were \$12.2 billion at March 31, 2018, and \$11.8 billion at December 31, 2017.

As shown in Figure 22, all of our mortgage-backed securities, which include both securities available for sale and held-to-maturity securities, are issued by government-sponsored enterprises or GNMA and traded in liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio and at amortized cost for the held-to-maturity portfolio. For more information about these securities, see Note 5 (“Fair Value Measurements”) under the heading “Qualitative Disclosures of Valuation Techniques,” and Note 6 (“Securities”).

Figure 22. Mortgage-Backed Securities by Issuer

in millions	March 31, 2018	December 31, 2017
FHLMC	\$5,896	\$5,897
FNMA	10,489	10,328
GNMA	13,502	13,543
Total (a)	\$29,887	\$29,768

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

Securities available for sale

The majority of our securities available for sale portfolio consists of federal agency CMOs and mortgage-backed securities. CMOs are debt securities secured by a pool of mortgages or mortgage-backed securities. These mortgage securities generate interest income, serve as collateral to support certain pledging agreements, and provide liquidity value under regulatory requirements.

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

In addition, the size and composition of our securities available for sale portfolio could vary with our needs for liquidity and the extent to which we are required (or elect) to hold these assets as collateral to secure public funds

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and trust deposits. Although we generally use debt securities for this purpose, other assets, such as securities purchased under resale agreements or letters of credit, are used occasionally when they provide a lower cost of collateral or more favorable risk profiles.

Our investing activities continue to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times provide the liquidity necessary to address our funding requirements. These funding requirements include ongoing loan growth and occasional debt maturities. At other times, we may make additional investments that go beyond the replacement of maturities or mortgage security cash flows as our liquidity position and/or interest rate risk management strategies may require. Lastly, our focus on investing in high quality liquid assets, including GNMA securities, is related to liquidity management strategies to satisfy regulatory requirements.

Figure 23 shows the composition, yields, and remaining maturities of our securities available for sale. For more information about these securities, including gross unrealized gains and losses by type of security and securities pledged, see Note 6 (“Securities”).

Figure 23. Securities Available for Sale

dollars in millions	U.S. Treasury, Agencies, and Corporations	States and Political Subdivisions	Agency Residential Collateralized Mortgage Obligations (a)	Agency Residential Mortgage-backed Securities (a)	Agency Commercial Mortgage-backed Securities (a)	Other Securities	Total	Weighted-Average Yield (b)	
March 31, 2018									
Remaining maturity:									
One year or less	—	\$ 3	\$ 112	\$ 17	—	—	\$ 132	3.29	%
After one through five years	\$ 106	6	9,345	1,259	\$ 1,723	\$ 20	12,459	2.12	
After five through ten years	39	—	5,109	53	83	—	5,284	2.26	
After ten years	1	—	—	12	—	—	13	3.11	
Fair value	\$ 146	\$ 9	\$ 14,566	\$ 1,341	\$ 1,806	\$ 20	\$ 17,888	—	
Amortized cost	151	9	15,037	1,376	1,902	17	18,492	2.17	%
Weighted-average yield (b)	1.78 %	5.20 %	2.18 %	2.11 %	2.22 %	— %	2.17 %	—	%
Weighted-average maturity	4.1 years	1.5 years	4.6 years	3.8 years	4.1 years	2.6 years	4.5 years	—	
December 31, 2017									
Fair value	\$ 157	\$ 9	\$ 14,660	\$ 1,439	\$ 1,854	\$ 20	\$ 18,139	—	
Amortized cost	159	9	14,985	1,456	1,920	17	18,546	2.09	%

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

(b) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a TE basis using the statutory federal income tax rate of 21%.

Held-to-maturity securities

Federal agency CMOs and mortgage-backed securities constitute essentially all of our held-to-maturity securities. The remaining balance is comprised of foreign bonds. Figure 24 shows the composition, yields, and remaining maturities

of these securities.

Figure 24. Held-to-Maturity Securities

dollars in millions	Agency Residential Collateralized Mortgage Obligations ^(a)	Agency Residential Mortgage-backed Securities ^(a)	Agency Commercial Mortgage-backed Securities ^(a)	Other Securities	Total	Weighted-Average Yield ^(a)	
March 31, 2018							
Remaining maturity:							
One year or less	\$ 38	—	—	\$ 9	\$47	2.36	%
After one through five years	4,543	—	\$ 1,713	6	6,262	2.26	
After five through ten years	3,371	\$ 554	1,695	—	5,620	2.42	
After ten years	—	—	260	—	260	2.22	
Amortized cost	\$ 7,952	\$ 554	\$ 3,668	\$ 15	\$12,189	2.34	%
Fair value	7,622	538	3,554	15	11,729	—	
Weighted-average yield	2.08	% 2.69	% 2.84	% 2.85	% 2.34	%—	
Weighted-average maturity	4.7 years	6.5 years	6.8 years	1.4 years	5.4 years	—	
December 31, 2017							
Amortized cost	\$ 8,055	\$ 574	\$ 3,186	\$ 15	\$11,830	2.27	%
Fair value	7,831	571	3,148	15	11,565	—	

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

(a) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a TE basis using the statutory federal income tax rate of 21%.

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Deposits and other sources of funds

Figure 25. Breakdown of Deposits at March 31, 2018

Deposits are our primary source of funding. At March 31, 2018, our deposits totaled \$104.8 billion, a decrease of \$484 million compared to December 31, 2017. Noninterest-bearing deposits decreased \$2.1 billion, which were elevated during the fourth quarter of 2017 as a result of short-term escrows and seasonal deposit inflows. Partly offsetting the decline in noninterest-bearing deposits were increases in NOW and money market deposit accounts, which increased \$979 million, and certificates of deposits and other time deposits, which increased \$576 million, reflecting strength in Key's retail banking franchise and growth from commercial relationships.

Wholesale funds, consisting of short-term borrowings and long-term debt, totaled \$15.5 billion at March 31, 2018, compared to \$15.3 billion at December 31, 2017. The increase in wholesale funds from December 31, 2017, reflects an increase in short-term borrowings as a result of strong commercial loan growth and seasonal deposit outflows during the first quarter of 2018.

Capital

The objective of capital management is to maintain capital levels consistent with our risk appetite and of a sufficient amount to operate under a wide range of economic conditions. We have identified four primary uses of capital:

1. Investing in our businesses, supporting our clients, and loan growth;
2. Maintaining or increasing our Common Share dividend;
3. Returning capital in the form of Common Share repurchases to our shareholders; and
4. Remaining disciplined and opportunistic about how we invest in our franchise to include selective acquisitions over time.

The following sections discuss certain ways we have deployed our capital. For further information, see the Consolidated Statements of Changes in Equity and Note 17 ("Shareholders' Equity").

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Dividends

Consistent with our 2017 capital plan, we paid a quarterly dividend of \$.105 per Common Share, for the first quarter of 2018. We made a payment of \$12.50 per depositary share on the depositary shares related to our Series D Preferred Stock during the first quarter of 2018, for a total of \$7 million. We made a payment of \$.382813 per depositary share on the depositary shares related to our Series E Preferred Stock during the first quarter of 2018, for a total of \$8 million.

Further information regarding the capital planning process and CCAR is included under the heading “Capital planning and stress testing” in the “Supervision and Regulation” section beginning on page 12 of our 2017 Form 10-K.

Common shares outstanding

Our Common Shares are traded on the NYSE under the symbol KEY with 35,674 holders of record at March 31, 2018. Our book value per Common Share was \$13.07 based on 1.065 billion shares outstanding at March 31, 2018, compared to \$13.09 per Common Share based on 1.069 billion shares outstanding at December 31, 2017. At March 31, 2018, our tangible book value per Common Share was \$10.35, compared to \$10.35 per Common Share at December 31, 2017.

Figure 26 shows activities that caused the change in outstanding common shares over the past five quarters.

Figure 26. Changes in Common Shares Outstanding

in thousands	2018		2017		
	First	Fourth	Third	Second	First
Shares outstanding at beginning of period	1,069,084	1,079,039	1,092,739	1,097,479	1,079,314
Open market repurchases and return of shares under employee compensation plans	(9,399)	(10,617)	(15,298)	(5,072)	(8,673)
Shares issued under employee compensation plans (net of cancellations)	5,254	662	1,598	332	6,270
Series A Preferred Stock exchanged for common shares	—	—	—	—	20,568
Shares outstanding at end of period	1,064,939	1,069,084	1,079,039	1,092,739	1,097,479

As shown above, Common Shares outstanding decreased by 4.1 million shares during the first quarter of 2018. This decrease was primarily due to common share repurchases under our 2017 capital plan.

At March 31, 2018, we had 191.8 million treasury shares, compared to 187.6 million treasury shares at December 31, 2017. Going forward we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

Information on repurchases of Common Shares by KeyCorp is included in Part II, Item 2. “Unregistered Sales of Equity Securities and Use of Proceeds” of this report.

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Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remained in excess of regulatory requirements at March 31, 2018. Our capital and liquidity levels are intended to position us to weather an adverse operating environment while continuing to serve our clients' needs, as well as to meet the Regulatory Capital Rules described in the "Supervision and regulation" section of Item 2 of this report. Our shareholders' equity to assets ratio was 10.90% at March 31, 2018, compared to 10.91% at December 31, 2017. Our tangible common equity to tangible assets ratio was 8.22% at March 31, 2018, compared to 8.23% at December 31, 2017. The minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of KeyCorp at March 31, 2018, calculated on a fully phased-in basis, are set forth under the heading "Basel III" in the "Supervision and Regulation" section in Item 1 of our 2017 Form 10-K.

Figure 27 represents the details of our regulatory capital positions at March 31, 2018, and December 31, 2017, under the Regulatory Capital Rules. Information regarding the regulatory capital ratios of KeyCorp's banking subsidiaries is presented annually, in Note 24 ("Shareholders' Equity") beginning on page 182 of our 2017 Form 10-K.

Figure 27. Capital Components and Risk-Weighted Assets

dollars in millions	March 31, 2018	December 31, 2017
COMMON EQUITY TIER 1		
Key shareholders' equity (GAAP)	\$14,944	\$15,023
Less: Preferred Stock ^(a)	1,009	1,009
Common Equity Tier 1 capital before adjustments and deductions	13,935	14,014
Less: Goodwill, net of deferred taxes	2,491	2,495
Intangible assets, net of deferred taxes	307	266
Deferred tax assets	85	2
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(461)	(311)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(185)	(122)
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	(388)	(391)
Total Common Equity Tier 1 capital	\$12,086	\$12,075
TIER 1 CAPITAL		
Common Equity Tier 1	\$12,086	\$12,075
Additional Tier 1 capital instruments and related surplus	1,009	1,009
Less: Deductions	—	1
Total Tier 1 capital	13,095	13,083
TIER 2 CAPITAL		
Tier 2 capital instruments and related surplus	1,351	1,310
Allowance for losses on loans and liability for losses on lending-related commitments ^(b)	959	952
Less: Deductions	—	—
Total Tier 2 capital	2,310	2,262
Total risk-based capital	\$15,405	\$15,345
RISK-WEIGHTED ASSETS		
Risk-weighted assets on balance sheet	\$96,781	\$94,735
Risk-weighted off-balance sheet exposure	22,888	23,058
Market risk-equivalent assets	1,317	1,019
Gross risk-weighted assets	120,986	118,812
Less: Excess allowance for loan and lease losses	—	—
Net risk-weighted assets	\$120,986	\$118,812

AVERAGE QUARTERLY TOTAL ASSETS	\$ 134,225	\$ 134,484	
CAPITAL RATIOS			
Tier 1 risk-based capital	10.82	% 11.01	%
Total risk-based capital	12.73	12.92	
Leverage ^(c)	9.76	9.73	
Common Equity Tier 1	9.99	10.16	

(a) Net of capital surplus.

The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the institution's standardized total risk-weighted assets (excluding its standardized market risk-weighted assets). The ALLL includes \$16 million of allowance classified as "discontinued assets" on the balance sheet at March 31, 2018, and December 31, 2017, respectively.

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

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Risk Management

Overview

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

The Board serves in an oversight capacity, ensuring that Key's risks are managed in a manner that is not only effective and balanced, but also adds value for the shareholders. The Board understands Key's risk philosophy, approves the risk appetite, inquires about risk practices, reviews the portfolio of risks, compares the actual risks to the risk appetite, and is apprised of significant risks, both actual and emerging, and determines whether management is responding appropriately. The Board challenges management and ensures accountability.

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

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

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

Our ERM Committee, chaired by the Chief Executive Officer and comprising other senior level executives, is responsible for managing risk and ensuring that the corporate risk profile is managed in a manner consistent with our risk appetite. The ERM Program encompasses our risk philosophy, policy, framework, and governance structure for the management of risks across the entire company. The ERM Committee reports to the Board's Risk Committee. Annually, the Board reviews and approves the ERM Policy, as well as the risk appetite, including corporate risk tolerances for major risk categories. We use a risk-adjusted capital framework to manage risks. This framework is approved and managed by the ERM Committee.

Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks, and discussing forward-looking assessments. Risk Governance Committees include attendees from each of the Three Lines of Defense. The First Line of Defense is the line of business primarily responsible to accept, own, proactively identify, monitor, and manage risk. The Second Line of Defense comprises

Risk Management representatives who provide independent, centralized oversight over all risk categories by aggregating, analyzing, and reporting risk information. Risk Review, our internal audit function, provides the Third Line of Defense in its role to provide independent assessment and testing of the effectiveness of, appropriateness of, and adherence to KeyCorp's risk management policies, practices, and controls. The Chief Risk Officer ensures that relevant risk information is properly integrated into strategic and business decisions, ensures appropriate ownership of risks, provides input into performance and compensation decisions, assesses aggregate enterprise risk, monitors capabilities to manage critical risks, and executes appropriate Board and stakeholder reporting.

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

Market risk management

Market risk is the risk that movements in market risk factors, including interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, and volatilities will reduce Key's income and the value of its portfolios. These factors influence prospective yields, values, or prices associated with the instrument. We are exposed to market risk both in our trading and nontrading activities, which include asset and liability management activities. Information regarding our fair value policies, procedures, and methodologies is provided in Note 1 ("Summary of Significant Accounting Policies") under the heading "Fair Value Measurements" on page 103 of our 2017 Form 10-K and Note 5 ("Fair Value Measurements") in this report.

Trading market risk

Key incurs market risk as a result of trading activities that are used in support of client facilitation and hedging activities, principally within our investment banking and capital markets businesses. Key has exposures to a wide range of risk factors including interest rates, equity prices, foreign exchange rates, credit spreads, and commodity prices, as well as the associated implied volatilities and spreads. Our primary market risk exposures are a result of trading and hedging activities in the derivative and fixed income markets, including securitization exposures. At quarter-end, we did not have any re-securitization positions. We maintain modest trading inventories to facilitate customer flow, make markets in securities, and hedge certain risks including but not limited to credit risk and interest rate risk. The risks associated with these activities are mitigated in accordance with the Market Risk hedging policy. The majority of our positions are traded in active markets.

Market risk management is an integral part of Key's risk culture. The Risk Committee of our Board provides oversight of trading market risks. The ERM Committee and the Market Risk Committee regularly review and discuss market risk reports prepared by our MRM group that contain our market risk exposures and results of monitoring activities. Market risk policies and procedures have been defined and approved by the Market Risk Committee, a Tier 2 Risk Governance Committee, and take into account our tolerance for risk and consideration for the business environment. Information regarding monitoring of trading positions and the activities related to the Market Risk Rule compliance can be found within the latest 10-K.

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

We use a historical simulation VaR model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions and other non-covered positions. We analyze market risk by portfolios, and do not separately measure and monitor our portfolios by risk type. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level. For more information regarding our VaR model, its governance and assumptions see "Market Risk Management" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 68 of our

2017 Form 10-K.

Actual losses for the total covered positions did not exceed aggregate daily VaR on any day during the quarters ended March 31, 2018, and March 31, 2017. The MRM group backtests our VaR model on a daily basis to evaluate its predictive power. The test compares VaR model results at the 99% confidence level to daily held profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR. We do not engage in correlation trading, or utilize the internal model approach for measuring default and credit migration risk. Our net VaR approach incorporates diversification, but our VaR calculation does not include the impact of counterparty risk and our own credit spreads on derivatives.

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The aggregate VaR at the 99% confidence level with a one day holding period for all covered positions was \$1 million at March 31, 2018, and \$2 million at March 31, 2017. The decrease in aggregate VaR was primarily due to the decreased exposure in our fixed income portfolios. Starting with the third quarter of 2017, the aggregate VaR does not include the VaR for the credit derivatives that represented the hedging activities for the commercial real estate warehouse portfolio. These activities are no longer considered as covered portfolios. Figure 28 summarizes our VaR at the 99% confidence level with a one day holding period for significant portfolios of covered positions for the three months ended March 31, 2018, and March 31, 2017.

Figure 28. VaR for Significant Portfolios of Covered Positions

	2018				2017			
	Three months ended March 31,				Three months ended March 31,			
in millions	High	Low	Mean	March 31,	High	Low	Mean	March 31,
Trading account assets:								
Fixed income	\$1.0	\$.3	\$.7	\$.8	\$1.4	\$.7	\$1.1	\$1.2
Derivatives:								
Interest rate	\$.1	—	\$.1	\$.1	\$.2	\$.1	\$.1	\$.1
Credit	—	—	—	—	.6	.1	.2	.6

Stressed VaR is calculated by running the portfolios through a predetermined stress period which is approved by the MRC and is calculated at the 99% confidence level using the same model and assumptions used for general VaR. The aggregate stressed VaR for all covered positions was \$5.2 million at March 31, 2018, and \$4.5 million at March 31, 2017. Figure 29 summarizes our stressed VaR at the 99% confidence level with a one day holding period for significant portfolios of covered positions for the three months ended March 31, 2018, and March 31, 2017.

Figure 29. Stressed VaR for Significant Portfolios of Covered Positions

	2018				2017			
	Three months ended March 31,				Three months ended March 31,			
in millions	High	Low	Mean	March 31,	High	Low	Mean	March 31,
Trading account assets:								
Fixed income	\$6.0	\$3.0	\$4.7	\$4.1	\$3.8	\$1.9	\$2.6	\$2.6
Derivatives:								
Interest rate	\$.5	\$.3	\$.4	\$.4	\$.3	\$.1	\$.2	\$.2
Credit	—	—	—	—	1.2	.1	.4	1.1

Internal capital adequacy assessment. Market risk is a component of our internal capital adequacy assessment. Our risk-weighted assets include a market risk-equivalent asset amount, which consists of a VaR component, stressed VaR component, a de minimis exposure amount, and a specific risk add-on including the securitization positions. The aggregate market value of the securitization positions as defined by the Market Risk Rule was \$52 million at March 31, 2018. This amount included \$25 million of mortgage-backed securities positions and \$27 million of asset-backed securities positions. Specific risk is the price risk of individual financial instruments, which is not accounted for by changes in broad market risk factors and is measured through a standardized approach. Market risk weighted assets, including the specific risk calculations, are run quarterly by the MRM in accordance with the Market Risk Rule, and approved by the Chief Market Risk Officer.

Nontrading market risk

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

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

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

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

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

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

The management of nontrading market risk is centralized within Corporate Treasury. The Risk Committee of our Board provides oversight of nontrading market risk. The ERM Committee and the ALCO review reports on the interest rate risk exposures described above. In addition, the ALCO reviews reports on stress tests and sensitivity analyses related to interest rate risk. These committees have various responsibilities related to managing nontrading market risk, including recommending, approving, and monitoring strategies that maintain risk positions within approved tolerance ranges. The A/LM policy provides the framework for the oversight and management of interest rate risk and is administered by the ALCO. The MRM, as the second line of defense, provides additional oversight.

Net interest income simulation analysis. The primary tool we use to measure our interest rate risk is simulation analysis. For purposes of this analysis, we estimate our net interest income based on the current and projected composition of our on- and off-balance sheet positions, accounting for recent and anticipated trends in customer activity. The analysis also incorporates assumptions for the current and projected interest rate environments, and balance sheet growth projections based on a most likely macroeconomic view. The results of simulation analysis reflect management’s desired interest rate risk positioning. The modeling incorporates investment portfolio and swap portfolio balances consistent with management’s desired interest rate risk positioning. The simulation model estimates the amount of net interest income at risk by simulating the change in net interest income that would occur if interest rates were to gradually increase or decrease over the next 12 months. Our standard rate scenarios encompass a gradual, parallel increase or decrease of 200 basis points, but due to the low interest rate environment, we have modified the standard decrease scenario to a gradual, parallel decrease of 150 basis points over nine months with no change over the following three months. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the net interest income generated in an unchanged interest rate environment.

Figure 30 presents the results of the simulation analysis at March 31, 2018, and March 31, 2017. At March 31, 2018, our simulated impact to changes in interest rates was modestly asset-sensitive. In March 2018, the Federal Reserve increased the range for the Federal Funds Target Rate, which led to an increase in the magnitude of the declining rate scenario to 150 basis points. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual, parallel 200 basis point increase or 150 basis point decrease in interest rates over the next 12 months would adversely affect net interest income over the same period by more than 5.5%. As a result of the Federal Reserve’s interest rate increases, our modeled exposure to declining rates remains close to our tolerance levels.

Figure 30. Simulated Change in Net Interest Income
March 31, 2018

Basis point change assumption (short-term rates) -150 +200

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Tolerance level	-5.50%	-5.50%
Interest rate risk assessment	-5.46%	3.22%
March 31, 2017		
Basis point change assumption (short-term rates)	-100	+200
Tolerance level	-5.50%	-5.50%
Interest rate risk assessment	-4.03%	1.05%

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Simulation analysis produces a sophisticated estimate of interest rate exposure based on assumptions input into the model. We tailor certain assumptions to the specific interest rate environment and yield curve shape being modeled, and validate those assumptions on a regular basis. However, actual results may differ from those derived in simulation analysis due to unanticipated changes to the balance sheet composition, customer behavior, product pricing, market interest rates, changes in management's desired interest rate risk positioning, investment, funding and hedging activities, and repercussions from unanticipated or unknown events.

We also perform regular stress tests and sensitivity analyses on the model inputs that could materially change the resulting risk assessments. Assessments are performed using different shapes of the yield curve, including steepening or flattening of the yield curve, immediate changes in market interest rates, and changes in the relationship of money market interest rates. Assessments are also performed on changes to the following assumptions: loan and deposit balances, the pricing of deposits without contractual maturities, changes in lending spreads, prepayments on loans and securities, investment, funding and hedging activities, and liquidity and capital management strategies.

The results of additional assessments indicate that net interest income could increase or decrease from the base simulation results presented in Figure 30. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate changes and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. If fixed rate assets increase by \$1 billion, or fixed rate liabilities decrease by \$1 billion, then the benefit to rising rates would decrease by approximately 30 basis points. If the interest bearing liquid deposit beta assumption increases or decreases by 5% (e.g. 40% to 45%), then the benefit to rising rates would change by approximately 90 basis points.

Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity, and repricing characteristics of loan and deposit flows. Treasury discretionary activities related to funding, investing, and hedging may also change as a result of changes in customer business flows, or changes in management's desired interest rate risk positioning. As changes occur to both the configuration of the balance sheet and the outlook for the economy, management proactively evaluates hedging opportunities that may change our interest rate risk profile.

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

Economic value of equity modeling. EVE complements net interest income simulation analysis as it estimates risk exposure beyond 12-, 24-, and 36-month horizons. EVE modeling measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease in interest rates, measuring the resulting change in the values of assets, liabilities, and off-balance sheet instruments, and comparing those amounts with the base case of the current interest rate environment. Because the calculation of EVE under an immediate 200 basis point decrease in interest rates in the current low rate environment results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points, we have modified the standard declining rate scenario to an immediate 150 basis point decrease. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate increase or decrease in interest rates. We are operating within these guidelines as of March 31, 2018.

Management of interest rate exposure. We use the results of our various interest rate risk analyses to formulate A/LM strategies to achieve the desired risk profile while managing to our objectives for capital adequacy and liquidity risk exposures. Specifically, we manage interest rate risk positions by purchasing securities, issuing term debt with floating or fixed interest rates, and using derivatives — predominantly in the form of interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities.

Figure 31 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a “receive fixed/pay variable”

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interest rate swap. The volume, maturity, and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 7 (“Derivatives and Hedging Activities”).

Figure 31. Portfolio Swaps by Interest Rate Risk Management Strategy
March 31, 2018

dollars in millions	Notional		Weighted-Average			December 31,	
	Fair Amount	Fair Value	Maturity (Years)	Receive Rate	Pay Rate	Fair Amount	Fair Value
Receive fixed/pay variable — conventional A/LM ^(a)	\$18,125	\$(211)	2.1	1.6 %	1.7 %	\$16,425	\$(126)
Receive fixed/pay variable — forward A/LM	400	—	1.7	2.3	1.9	—	—
Receive fixed/pay variable — conventional debt	9,210	(81)	2.8	1.7	1.7	9,691	(9)
Pay fixed/receive variable — conventional debt	50	(4)	10.3	1.7	3.6	50	(6)
Total portfolio swaps	\$27,785	\$(296) ^(b)	2.3	1.6 %	1.7 %	\$26,166	\$(141) ^(b)

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

(b) Excludes accrued interest of \$333 million and \$176 million at March 31, 2018, and December 31, 2017, respectively.

Liquidity risk management

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

Factors affecting liquidity

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

Our credit ratings at March 31, 2018, are shown in Figure 32. We believe these credit ratings, under normal conditions in the capital markets, would enable KeyCorp or KeyBank to issue fixed income securities to investors.

Figure 32. Credit Ratings

March 31, 2018	Short-Term Borrowings	Long-Term Deposits	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Preferred Stock
KEYCORP (THE PARENT COMPANY)						
Standard & Poor's	A-2	N/A	BBB+	BBB	BB+	BB+
Moody's	P-2	N/A	Baa1	Baa1	Baa2	Baa3
Fitch Ratings, Inc.	F1	N/A	A-	BBB+	BB+	BB
DBRS, Inc.	R-1 (low)	N/A	A (low)	BBB (high)	BBB (high)	BBB (low)

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KEYBANK

Standard & Poor's	A-2	N/A	A-	BBB+	N/A	N/A
Moody's	P-2	Aa3	A3	Baa1	N/A	N/A
Fitch Ratings, Inc.	F1	A	A-	BBB+	N/A	N/A
DBRS, Inc.	R-1 (low)	A	A	A (low)	N/A	N/A

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Sources of liquidity

Our primary source of funding for KeyBank is retail and commercial deposits. As of March 31, 2018, our loan-to-deposit ratio was 87%. In addition, we also have available unused sources of wholesale funding and liquid assets and borrowing capacity at the FHLB of Cincinnati and Federal Reserve Bank of Cleveland. Our liquid asset portfolio at March 31, 2018, totaled \$22.3 billion, consisting of \$20.8 billion of unpledged securities, \$264 million of securities available for secured funding at the FHLB, and \$1.3 billion of net balances of federal funds sold and balances in our Federal Reserve account. Additionally, as of March 31, 2018, our unused borrowing capacity secured by loan collateral was \$25.0 billion at the Federal Reserve Bank of Cleveland and \$7.0 billion at the FHLB. During the first quarter of 2018, our outstanding FHLB of Cincinnati advances were increased by \$494 million as term advances were added.

During the first quarter of 2018, KeyBank issued \$500 million of 3.375% Senior Bank Notes due March 7, 2023, under its Global Bank Note Program.

Liquidity for KeyCorp

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

At March 31, 2018, KeyCorp held \$2.1 billion in cash, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our risk tolerance.

Typically, KeyCorp meets its liquidity requirements through regular dividends from KeyBank. During the first quarter of 2018, KeyBank paid \$375 million in dividends to KeyCorp. As of March 31, 2018, KeyBank had regulatory capacity to pay \$1.0 billion in dividends to KeyCorp without prior regulatory approval.

Our liquidity position and recent activity

Over the past quarter, our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has decreased as a result of lower balances held at the Federal Reserve and a decrease in unpledged securities. The liquid asset portfolio continues to exceed the amount that we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer-term solution.

We generate cash flows from operations and from investing and financing activities. We have approximately \$177 million of cash, cash equivalents, and short-term investments in international tax jurisdictions as of March 31, 2018. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately \$2 million in taxes to be paid. We have included the appropriate amount as a deferred tax liability at March 31, 2018.

The Consolidated Statements of Cash Flows summarize our sources and uses of cash by type of activity for the three-month periods ended March 31, 2018, and March 31, 2017.

For more information regarding liquidity governance structure, factorings affecting liquidity, management of liquidity risk at KeyBank and KeyCorp, long-term liquidity strategies, and other liquidity programs see "Liquidity Risk Management" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of

Operations” on page 73 of our 2017 Form 10-K.

Credit risk management

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

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Credit policy, approval, and evaluation

We manage credit risk exposure through a multifaceted program. The Credit Risk Committee approves management credit policies and recommends for approval significant credit policies to the appropriate Board or Board committee. These policies are communicated throughout the organization to foster a consistent approach to granting credit.

Our credit risk management team and certain individuals within our lines of business, to whom credit risk management has delegated limited credit authority, are responsible for credit approval. Individuals with assigned credit authority are authorized to grant exceptions to credit policies. It is not unusual to make exceptions to established policies when mitigating circumstances dictate, however, a corporate level tolerance has been established to keep exceptions at an acceptable level based upon portfolio and economic considerations.

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

We maintain an active concentration management program to mitigate concentration risk in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the type of loan and strength of the borrower. Our legal lending limit is approximately \$2.2 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of March 31, 2018, we had 16 client relationships with loan commitments net of credit default swaps of more than \$200 million. The average amount outstanding on these 16 individual net obligor commitments was \$110 million at March 31, 2018. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

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

Selected asset quality statistics for each of the past five quarters are presented in Figure 33. The factors that drive these statistics are discussed in the remainder of this section.

Figure 33. Selected Asset Quality Statistics from Continuing Operations

	2018		2017		
dollars in millions	First	Fourth	Third	Second	First
Net loan charge-offs	\$54	\$52	\$32	\$66	\$58
Net loan charge-offs to average total loans	.25 %	.24 %	.15 %	.31 %	.27 %
Allowance for loan and lease losses	\$881	\$877	\$880	\$870	\$870
Allowance for credit losses ^(a)	941	934	937	918	918
Allowance for loan and lease losses to period-end loans	1.00 %	1.01 %	1.02 %	1.01 %	1.01 %
Allowance for credit losses to period-end loans	1.07	1.08	1.08	1.06	1.07
Allowance for loan and lease losses to nonperforming loans ^(b)	162.8	174.4	170.2	171.6	151.8
Allowance for credit losses to nonperforming loans ^(b)	173.9	185.7	181.2	181.1	160.2
Nonperforming loans at period end ^(b)	\$541	\$503	\$517	\$507	\$573
Nonperforming assets at period end ^(b)	569	534	556	556	623
Nonperforming loans to period-end portfolio loans ^(b)	.61 %	.58 %	.60 %	.59 %	.67 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets ^(b)	.65	.62	.64	.64	.72

(a)

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

Nonperforming loan balances exclude \$690 million, \$738 million, \$783 million, \$835 million, and \$812 million of (b)PCI loans at March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017, respectively.

We estimate the appropriate level of the ALLL on at least a quarterly basis. The methodology used is described in Note 1 (“Summary of Significant Accounting Policies”) under the heading “Allowance for Loan and Lease Losses” beginning on page 102 of our 2017 Form 10-K. Briefly, our allowance applies incurred loss rates to existing loans with similar risk characteristics. We exercise judgment to assess any adjustment to the incurred loss rates for the impact of factors such as changes in economic conditions, lending policies including underwriting standards, and the level of credit risk associated with specific industries and markets. The ALLL at March 31, 2018, represents our best estimate of the incurred credit losses inherent in the loan portfolio at that date. For more information about impaired loans, see Note 4 (“Asset Quality”).

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As shown in Figure 34, our ALLL from continuing operations increased by \$4 million, or 0.5%, from December 31, 2017. Our commercial ALLL increased by \$7 million, or 1.0%, from December 31, 2017, primarily because of loan growth in the commercial and industrial loan portfolio, as well as credit quality migration. Our consumer ALLL decreased by \$3 million, or 2.1%, from December 31, 2017, primarily due to continued improvement in credit quality metrics.

Figure 34. Allocation of the Allowance for Loan Lease Losses

dollars in millions	March 31, 2018				December 31, 2017			
	Percent of		Percent of		Percent of		Percent of	
	Amount	Allowance to	Loan Type to	Amount	Allowance to	Loan Type to	Amount	Allowance to
	Total Allowance	Total Loans	Total Loans	Total Allowance	Total Loans	Total Loans	Total Allowance	Total Loans
Commercial and industrial	\$533	60.5 %	50.3 %	\$529	60.3 %	48.4 %		
Commercial real estate:								
Commercial mortgage	136	15.4	15.9	133	15.2	16.3		
Construction	33	3.8	2.1	30	3.4	2.3		
Total commercial real estate loans	169	19.2	18.0	163	18.6	18.6		
Commercial lease financing	40	4.5	5.2	43	4.9	5.6		
Total commercial loans	742	84.2	73.5	735	83.8	72.6		
Real estate — residential mortgage	9	1.0	6.2	7	.8	6.3		
Home equity loans	38	4.3	13.3	43	4.9	13.9		
Consumer direct loans	27	3.1	2.0	28	3.2	2.1		
Credit cards	45	5.1	1.2	44	5.0	1.3		
Consumer indirect loans	20	2.3	3.8	20	2.3	3.8		
Total consumer loans	139	15.8	26.5	142	16.2	27.4		
Total loans ^(a)	\$881	100.0 %	100.0 %	\$877	100.0 %	100.0 %		

^(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of \$16 million at March 31, 2018, and December 31, 2017, respectively.

Net loan charge-offs

Figure 35 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 36.

Over the past 12 months, net loan charge-offs decreased \$4 million. This decrease is attributable to continued portfolio strength in our consumer loan portfolio. Net loan charge-offs for our commercial loan portfolio was flat compared to the year-ago quarter.

Figure 35. Net Loan Charge-offs from Continuing Operations ^(a)

dollars in millions	2018		2017		
	First	Fourth	Third	Second	First
Commercial and industrial	\$31	\$24	\$ 4	\$ 38	\$ 27
Real estate — Commercial mortgage	1	1	5	3	—
Real estate — Construction	(1)	—	2	—	(1)
Commercial lease financing	—	4	(2)	1	5
Total commercial loans	31	29	9	42	31
Real estate — Residential mortgage	1	1	(1)	3	(4)
Home equity loans	1	4	2	4	5

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Consumer direct loans	6	6	7	6	9
Credit cards	11	9	10	10	10
Consumer indirect loans	4	3	5	1	7
Total consumer loans	23	23	23	24	27
Total net loan charge-offs	\$54	\$52	\$ 32	\$ 66	\$58
Net loan charge-offs to average loans	.25 %	.24 %	.15 %	.31 %	.27 %
Net loan charge-offs from discontinued operations — education lending business	\$2	\$4	\$ 8	\$ 2	\$4

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

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Figure 36. Summary of Loan and Lease Loss Experience from Continuing Operations

dollars in millions	Three months ended	
	March 31,	
	2018	2017
Average loans outstanding	\$86,927	\$86,133
Allowance for loan and lease losses at beginning of period	\$877	\$858
Loans charged off:		
Commercial and industrial	37	32
Real estate — commercial mortgage	1	—
Real estate — construction	—	—
Total commercial real estate loans ^(a)	1	—
Commercial lease financing	1	7
Total commercial loans ^(b)	39	39
Real estate — residential mortgage	1	(2)
Home equity loans	4	8
Consumer direct loans	8	10
Credit cards	12	11
Consumer indirect loans	8	11
Total consumer loans	33	38
Total loans charged off	72	77
Recoveries:		
Commercial and industrial	6	5
Real estate — commercial mortgage	—	—
Real estate — construction	1	1
Total commercial real estate loans ^(a)	1	1
Commercial lease financing	1	2
Total commercial loans ^(b)	8	8
Real estate — residential mortgage	—	2
Home equity loans	3	3
Consumer direct loans	2	1
Credit cards	1	1
Consumer indirect loans	4	4
Total consumer loans	10	11
Total recoveries	18	19
Net loan charge-offs	(54)	(58)
Provision (credit) for loan and lease losses	58	70
Allowance for loan and lease losses at end of period	\$881	\$870
Liability for credit losses on lending-related commitments at beginning of period	\$57	\$55
Provision (credit) for losses on lending-related commitments	3	(7)
Liability for credit losses on lending-related commitments at end of period ^(c)	\$60	\$48
Total allowance for credit losses at end of period	\$941	\$918
Net loan charge-offs to average total loans	.25	%.27
Allowance for loan and lease losses to period-end loans	1.00	1.01
Allowance for credit losses to period-end loans	1.07	1.07
Allowance for loan and lease losses to nonperforming loans	162.8	151.8
Allowance for credit losses to nonperforming loans	173.9	160.2

Discontinued operations — education lending business:

Loans charged off	\$4	\$6
Recoveries	2	2
Net loan charge-offs	\$(2)	\$(4)

(a) See Figure 18 entitled “Commercial Real Estate Loans” and the accompanying discussion in the “Loans and loans held for sale” section for more information related to our commercial real estate loan portfolio.

(b) See Figure 17 entitled “Commercial Loans by Industry” and the accompanying discussion in the “Loans and loans held for sale” section for more information related to our commercial loan portfolio.

(c) Included in “accrued expense and other liabilities” on the balance sheet.

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Nonperforming assets

Figure 37 shows the composition of our nonperforming assets. As shown in Figure 37, nonperforming assets at March 31, 2018, increased \$35 million from December 31, 2017. This increase was largely driven by credit migration within our commercial and industrial loan portfolio. See Note 1 (“Summary of Significant Accounting Policies”) under the headings “Nonperforming Loans,” “Impaired Loans,” and “Allowance for Loan and Lease Losses” beginning on page 101 of our 2017 Form 10-K for a summary of our nonaccrual and charge-off policies.

Figure 37. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

dollars in millions	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Commercial and industrial	\$ 189	\$ 153	\$ 169	\$ 178	\$ 258
Real estate — commercial mortgage	33	30	30	34	32
Real estate — construction	2	2	2	4	2
Total commercial real estate loans ^(a)	35	32	32	38	34
Commercial lease financing	5	6	11	11	5
Total commercial loans ^(b)	229	191	212	227	297
Real estate — residential mortgage	59	58	57	58	54
Home equity loans	229	229	227	208	207
Consumer direct loans	4	4	3	2	3
Credit cards	2	2	2	2	3
Consumer indirect loans	18	19	16	10	9
Total consumer loans	312	312	305	280	276
Total nonperforming loans ^(c)	541	503	517	507	573
OREO	28	31	39	48	49
Other nonperforming assets	—	—	—	1	1
Total nonperforming assets ^(c)	\$ 569	\$ 534	\$ 556	\$ 556	\$ 623
Accruing loans past due 90 days or more	\$ 82	\$ 89	\$ 86	\$ 85	\$ 79
Accruing loans past due 30 through 89 days	305	359	329	340	312
Restructured loans — accruing and nonaccruing ^(d)	317	317	315	333	302
Restructured loans included in nonperforming loans ^(d)	179	189	187	193	161
Nonperforming assets from discontinued operations — education lending business	6	7	8	5	4
Nonperforming loans to period-end portfolio loans ^(c)	.61	%.58	%.60	%.59	%.67
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets ^(c)	.65	.62	%.64	%.64	%.72

(a) See Figure 18 and the accompanying discussion in the “Loans and loans held for sale” section for more information related to our commercial real estate loan portfolio.

(b) See Figure 17 and the accompanying discussion in the “Loans and loans held for sale” section for more information related to our commercial loan portfolio.

Nonperforming loan balances exclude \$690 million, \$738 million, \$783 million, \$835 million, and \$812 million of (c) PCI loans at March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017, respectively.

Restructured loans (i.e., TDRs) are those for which Key, for reasons related to a borrower’s financial difficulties, grants a concession to the borrower that it would not otherwise consider. These concessions are made to improve (d) the collectability of the loan and generally take the form of a reduction of the interest rate, extension of the maturity date or reduction in the principal balance.

Figure 38 shows the types of activity that caused the change in our nonperforming loan balance during each of the last five quarters.

Figure 38. Summary of Changes in Nonperforming Loans from Continuing Operations

in millions	2018		2017		
	First	Fourth	Third	Second	First
Balance at beginning of period	\$503	\$517	\$507	\$573	\$625
Loans placed on nonaccrual status	182	137	181	143	218
Charge-offs	(70)	(67)	(71)	(82)	(77)
Loans sold	—	—	(1)	—	(8)
Payments	(29)	(52)	(32)	(84)	(59)
Transfers to OREO	(4)	(8)	(10)	(8)	(11)
Loans returned to accrual status	(41)	(24)	(57)	(35)	(115)
Balance at end of period ^(a)	\$541	\$503	\$517	\$507	\$573

Nonperforming loan balances exclude \$690 million, \$738 million, \$783 million, \$835 million, and \$812 million of (a) PCI loans at March 31, 2018, December 31, 2017, September 30, 2017, June 30, 2017, and March 31, 2017, respectively.

Operational and compliance risk management

Like all businesses, we are subject to operational risk, which is the risk of loss resulting from human error or malfeasance, inadequate or failed internal processes and systems, and external events. These events include, among other things, threats to our cybersecurity, as we are reliant upon information systems and the Internet to

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conduct our business activities. Operational risk also encompasses compliance risk, which is the risk of loss from violations of, or noncompliance with, laws, rules and regulations, prescribed practices, and ethical standards. Under the Dodd-Frank Act, large financial companies like Key are subject to heightened prudential standards and regulation. This heightened level of regulation has increased our operational risk. Resulting operational risk losses and/or additional regulatory compliance costs could take the form of explicit charges, increased operational costs, harm to our reputation, or foregone opportunities.

We seek to mitigate operational risk through identification and measurement of risk, alignment of business strategies with risk appetite and tolerance, and a system of internal controls and reporting. We continuously strive to strengthen our system of internal controls to improve the oversight of our operational risk and to ensure compliance with laws, rules, and regulations. For example, an operational event database tracks the amounts and sources of operational risk and losses. This tracking mechanism helps to identify weaknesses and to highlight the need to take corrective action. We also rely upon software programs designed to assist in assessing operational risk and monitoring our control processes. This technology has enhanced the reporting of the effectiveness of our controls to senior management and the Board.

The Operational Risk Management Program provides the framework for the structure, governance, roles, and responsibilities, as well as the content, to manage operational risk for Key. The Compliance Risk Committee serves the same function in managing compliance risk for Key. Primary responsibility for managing and monitoring internal control mechanisms lies with the managers of our various lines of business. The Operational Risk Committee and Compliance Risk Committee are senior management committees that oversee our level of operational and compliance risk and direct and support our operational and compliance infrastructure and related activities. These committees and the Operational Risk Management and Compliance functions are an integral part of our ERM Program. Our Risk Review function regularly assesses the overall effectiveness of our Operational Risk Management and Compliance Programs and our system of internal controls. Risk Review reports the results of reviews on internal controls and systems to senior management and the Risk and Audit Committees and independently supports the Risk Committee's oversight of these controls.

Cybersecurity

We maintain comprehensive Cyber Incident Response Plans, and we devote significant time and resources to maintaining and regularly updating our technology systems and processes to protect the security of our computer systems, software, networks, and other technology assets against attempts by third parties to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems, or cause other damage. We and many other U.S. financial institutions have experienced distributed denial-of-service attacks from technologically sophisticated third parties. These attacks are intended to disrupt or disable online banking services and prevent banking transactions. We also periodically experience other attempts to breach the security of our systems and data. These cyberattacks have not, to date, resulted in any material disruption of our operations or material harm to our customers, and have not had a material adverse effect on our results of operations.

Cyberattack risks may also occur with our third-party technology service providers, and may result in financial loss or liability that could adversely affect our financial condition or results of operations. Cyberattacks could also interfere with third-party providers' ability to fulfill their contractual obligations to us. Recent high-profile cyberattacks have targeted retailers, credit bureaus, and other businesses for the purpose of acquiring the confidential information (including personal, financial, and credit card information) of customers, some of whom are customers of ours. We may incur expenses related to the investigation of such attacks or related to the protection of our customers from identity theft as a result of such attacks. We may also incur expenses to enhance our systems or processes in order to protect our customers whose information may have been exposed through the recent breach of the Equifax credit bureau or other external security incidents. Risks and exposures related to cyberattacks are expected to remain high for

the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking, and other technology-based products and services by us and our clients.

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Critical Accounting Policies and Estimates

Our business is dynamic and complex. Consequently, we must exercise judgment in choosing and applying accounting policies and methodologies. These choices are critical – not only are they necessary to comply with GAAP, they also reflect our view of the appropriate way to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 (“Summary of Significant Accounting Policies”) beginning on page 100 of our 2017 Form 10-K should be reviewed for a greater understanding of how we record and report our financial performance. Note 1 (“Basis of Presentation and Accounting Policies”) of this report should also be reviewed for more information on accounting standards that have been adopted during the period.

In our opinion, some accounting policies are more likely than others to have a critical effect on our financial results and to expose those results to potentially greater volatility. These policies apply to areas of relatively greater business importance, or require us to exercise judgment and to make assumptions and estimates that affect amounts reported in the financial statements. Because these assumptions and estimates are based on current circumstances, they may prove to be inaccurate, or we may find it necessary to change them.

We rely heavily on the use of judgment, assumptions, and estimates to make a number of core decisions, including accounting for the ALLL; contingent liabilities, guarantees and income taxes; derivatives and related hedging activities; and assets and liabilities that involve valuation methodologies. In addition, we may employ outside valuation experts to assist us in determining fair values of certain assets and liabilities. A brief discussion of each of these areas appears on pages 86 through 89 of our 2017 Form 10-K.

During the first three months of 2018, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

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Accounting and Reporting Developments

Accounting Guidance Pending Adoption at March 31, 2018

Standard	Required Adoption	Description	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases (Topic 842)	January 1, 2019	The ASU creates ASC Topic 842, Leases, and supersedes Topic 840, Leases. The ASU requires that a lessee recognize assets and liabilities for leases with lease terms of more than 12 months. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Leveraged leases that commenced before the effective date of the new guidance are grandfathered. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, the ASU will require both types of leases to be recognized on the balance sheet. It also requires disclosures to better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. Upon transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach.	Key has formed a cross-functional team to oversee the implementation of this ASU. Implementation efforts are ongoing, including the review of our lease portfolios and related lease accounting policies, the review of our service contracts for embedded leases, and the deployment of a new lease software solution. Key's adoption of this ASU, which is expected to occur January 1, 2019, will result in an increase in right-of-use assets and associated lease liabilities, arising from operating leases in which Key is the lessee, on our Consolidated Balance Sheet. The amount of the right-of-use assets and associated lease liabilities recorded upon adoption will be based primarily on the present value of unpaid future minimum lease payments, the amount of which will depend on the population of leases in effect at the date of adoption. Key's minimum future rental payments under noncancelable operating leases would be measured and recognized when the new guidance is adopted (refer to Note 22 ("Commitments, Contingent Liabilities, and Guarantees" in our 2017 Form 10-K). While these leases represent a large majority of the leases that are within scope of the new leasing standard, we continue to review service contracts to identify potential additional leases embedded in those arrangements that would be within the scope of the new standard. Between now and January 1, 2019, Key will likely have changes to the lease portfolio as we continue to evaluate and execute branch and occupancy optimization initiatives. In addition to final determination of the lease portfolio at the effective date, the initial measurement of the right-of-use asset and the corresponding liability will be affected by certain key assumptions such as expectations of renewals or extensions and the interest rate to be used to discount the future lease obligations. Up through the date of adoption, the evaluation of the impact of the standard will be adjusted based on new leases that are executed, leases that are terminated prior to the effective date, and any leases with changes to key assumptions or expectations such as renewals and extensions, and
ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient	Early adoption is permitted		

discount rates. We do not expect the adoption of this guidance to have a material impact on the recognition of operating lease expense in our Consolidated Statements of Income.

<p>ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities</p>	<p>January 1, 2019 Early adoption is permitted.</p>	<p>The ASU amends ASC Topic 310-20, Receivables — Nonrefundable Fees and Other Costs, and shortens the amortization period to the earliest call date for certain callable debt securities held at a premium. Securities held at a discount will continue to be amortized to maturity. The guidance should be implemented on a modified retrospective basis using a cumulative-effect adjustment.</p>	<p>The adoption of this guidance is not expected to have a material effect on our financial condition or results of operations.</p>
<p>ASU 2016-13 Measurement of Credit Losses on Financial Instruments</p>	<p>January 1, 2020 Early adoption is permitted as of January 1, 2019</p>	<p>The ASU amends ASC Topic 326, Financial Instruments-Credit Losses, and significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaces today’s “incurred loss” approach with an “expected loss” model for instruments such as loans and HTM securities that are measured at amortized cost. The standard requires credit losses relating to AFS debt securities to be recorded through an allowance rather than a reduction of the carrying amount. It also changes the accounting for purchased credit-impaired debt securities and loans. The ASU retains many of the current disclosure requirements in current GAAP and expands certain disclosure requirements.</p>	<p>This new guidance will affect the accounting for our loans, debt securities held to maturity and available for sale, and liabilities for credit losses on unfunded lending-related commitments as well as purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. Key has formed a cross-functional implementation working group comprised of teams throughout Key, including finance and credit. The implementation team has developed a project plan that results in the adoption of the standard on January 1, 2020. During 2017, the implementation team focused on understanding the standard, identifying and researching key interpretive issues and designing models. The implementation team is also in the process of assessing governance related to the reasonable and supportable forecast period and continues to assess whether data that is required to comply with the standard is available and accurate. During 2018, the focus will be on execution and implementation, continued review and challenge of our models, data resolution, processes and controls, and reporting.</p> <p>Key expects that the new guidance will generally result in an increase in its allowance for credit losses, as it will cover credit losses over the full remaining expected life of loans and commitments and will consider future changes in macroeconomic conditions. Since the magnitude of the anticipated increase in the allowance for credit losses will be impacted by economic conditions and trends in the Company’s portfolio at the time of adoption, the</p>

quantitative impact cannot yet be reasonably estimated.

<p>ASU 2017-04, Simplifying the Test for Goodwill Impairment</p>	<p>January 1, 2020</p> <p>Early adoption is permitted</p>	<p>The ASU amends ASC Topic 350, Intangibles - Goodwill and Other and eliminates the second step of the test for goodwill impairment. Under the new guidance, entities will compare the fair value of a reporting unit with its carrying amount. If the carrying amount exceeds the reporting unit's fair value, the entity is required to recognize an impairment charge for this amount. The new method applies to all reporting units and the performance of a qualitative assessment is still allowable.</p> <p>The guidance should be implemented using a prospective approach.</p>	<p>The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.</p>
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European Sovereign and Nonsovereign Debt Exposures

Our total European sovereign and Nonsovereign debt exposure is presented in Figure 39.

Figure 39. European Sovereign and Nonsovereign Debt Exposures

March 31, 2018 in millions	Short-and Long- Term Commercial Total ^(a)	Foreign Exchange and Derivatives with Collateral ^(b)	Net Exposure
France:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	\$ —	\$ —
Nonsovereign non-financial institutions	\$ 9	—	9
Total	9	—	9
Germany:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	32	—	32
Total	32	—	32
Italy:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	7	—	7
Total	7	—	7
Netherlands:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	7	—	7
Total	7	—	7
Spain:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	2	—	2
Total	2	—	2
Switzerland:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	(3)	(3)
Nonsovereign non-financial institutions	51	—	51
Total	51	(3)	48
United Kingdom:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	146	146
Nonsovereign non-financial institutions	33	—	33
Total	33	146	179
Other Europe: ^(c)			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	—	—	—
Total	—	—	—
Total Europe:			

Sovereigns	—	—	—
Nonsovereign financial institutions	—	143	143
Nonsovereign non-financial institutions	141	—	141
Total	\$ 141	\$ 143	\$ 284

(a) Represents our outstanding leases.

Represents contracts to hedge our balance sheet asset and liability needs, and to accommodate our clients' trading

(b) and/or hedging needs. Our derivative mark-to-market exposures are calculated and reported on a daily basis. These exposures are largely covered by cash or highly marketable securities collateral with daily collateral calls.

Other Europe consists of the following countries: Austria, Belarus, Belgium, Bulgaria, Cyprus, Czech Republic,

(c) Denmark, Finland, Greece, Hungary, Iceland, Ireland, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, Sweden, and Ukraine. 100% of our current exposure in Other Europe is in Austria, Belgium, and Sweden.

Our credit risk exposure is largely concentrated in developed countries with emerging market exposure essentially limited to commercial facilities; these exposures are actively monitored by management. We do not have at-risk exposures in the rest of the world.

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Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	March 31, 2018	December 31, 2017	
	(Unaudited)		
ASSETS			
Cash and due from banks	\$ 643	\$ 671	
Short-term investments	1,644	4,447	
Trading account assets	769	836	
Securities available for sale	17,888	18,139	
Held-to-maturity securities (fair value: \$11,729 and \$11,565)	12,189	11,830	
Other investments	715	726	
Loans, net of unearned income of \$705 and \$736	88,089	86,405	
Less: Allowance for loan and lease losses	(881)	(877))
Net loans	87,208	85,528	
Loans held for sale ^(a)	1,667	1,107	
Premises and equipment	916	930	
Operating lease assets	838	821	
Goodwill	2,538	2,538	
Other intangible assets	387	416	
Corporate-owned life insurance	4,142	4,132	
Accrued income and other assets	4,216	4,237	
Discontinued assets	1,289	1,340	
Total assets	\$ 137,049	\$ 137,698	
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	\$ 54,606	\$ 53,627	
Savings deposits	6,321	6,296	
Certificates of deposit (\$100,000 or more)	7,295	6,849	
Other time deposits	4,928	4,798	
Total interest-bearing deposits	73,150	71,570	
Noninterest-bearing deposits	31,601	33,665	
Total deposits	104,751	105,235	
Federal funds purchased and securities sold under repurchase agreements	616	377	
Bank notes and other short-term borrowings	1,133	634	
Accrued expense and other liabilities	1,854	2,094	
Long-term debt	13,749	14,333	
Total liabilities	122,103	122,673	
EQUITY			
Preferred stock	1,025	1,025	
Common shares, \$1 par value; authorized 1,400,000,000 shares; issued 1,256,702,081, and 1,256,702,081 shares	1,257	1,257	
Capital surplus	6,289	6,335	
Retained earnings	10,624	10,335	
Treasury stock, at cost (191,763,406 and 187,617,832 shares)	(3,260)	(3,150))
Accumulated other comprehensive income (loss)	(991)	(779))
Key shareholders' equity	14,944	15,023	
Noncontrolling interests	2	2	

Total equity	14,946	15,025
Total liabilities and equity	\$ 137,049	\$ 137,698

(a) Total loans held for sale include real estate — residential mortgage loans held for sale at fair value of \$47 million at March 31, 2018, and \$71 million at December 31, 2017.

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Income

dollars in millions, except per share amounts	Three months ended March 31,	
(Unaudited)	2018	2017
INTEREST INCOME		
Loans	\$940	\$ 877
Loans held for sale	12	13
Securities available for sale	95	95
Held-to-maturity securities	69	51
Trading account assets	7	7
Short-term investments	8	3
Other investments	6	4
Total interest income	1,137	1,050
INTEREST EXPENSE		
Deposits	91	58
Federal funds purchased and securities sold under repurchase agreements	4	1
Bank notes and other short-term borrowings	6	5
Long-term debt	92	68
Total interest expense	193	132
NET INTEREST INCOME	944	918
Provision for credit losses	61	63
Net interest income after provision for credit losses	883	855
NONINTEREST INCOME		
Trust and investment services income	133	135
Investment banking and debt placement fees	143	127
Service charges on deposit accounts	89	87
Operating lease income and other leasing gains	32	23
Corporate services income	62	54
Cards and payments income	62	65
Corporate-owned life insurance income	32	30
Consumer mortgage income	7	6
Mortgage servicing fees	20	18
Other income ^(a)	21	32
Total noninterest income	601	577
NONINTEREST EXPENSE		
Personnel	594	556
Net occupancy	78	87
Computer processing	52	60
Business services and professional fees	41	46
Equipment	26	27
Operating lease expense	27	19
Marketing	25	21
FDIC assessment	21	20
Intangible asset amortization	29	22
OREO expense, net	2	2
Other expense	111	153
Total noninterest expense	1,006	1,013
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	478	419

Income taxes	62	94
INCOME (LOSS) FROM CONTINUING OPERATIONS	416	325
Income (loss) from discontinued operations	2	—
NET INCOME (LOSS)	418	325
Less: Net income (loss) attributable to noncontrolling interests	—	1
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	\$418	\$ 324
Income (loss) from continuing operations attributable to Key common shareholders	\$402	\$ 296
Net income (loss) attributable to Key common shareholders	404	296
Per common share:		
Income (loss) from continuing operations attributable to Key common shareholders	\$.38	\$.28
Income (loss) from discontinued operations, net of taxes	—	—
Net income (loss) attributable to Key common shareholders ^(b)	.38	.28
Per common share — assuming dilution:		
Income (loss) from continuing operations attributable to Key common shareholders	\$.38	\$.27
Income (loss) from discontinued operations, net of taxes	—	—
Net income (loss) attributable to Key common shareholders ^(b)	.38	.27
Cash dividends declared per common share	\$.105	\$.085
Weighted-average common shares outstanding (000)	1,056,000	1,058,609
Effect of common share options and other stock awards	15,749	17,931
Weighted-average common shares and potential common shares outstanding (000) ^(c)	1,071,749	1,076,540

For the three months ended March 31, 2018, net securities gains totaled less than \$1 million. For the three months ended March 31, 2017, net securities gains totaled \$1 million. For the three months ended March 31, 2018, and March 31, 2017, we did not have any impairment losses related to securities.

(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.

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Comprehensive Income

in millions	Three months ended March 31, 2018 2017
(Unaudited)	
Net income (loss)	\$418 \$325
Other comprehensive income (loss), net of tax:	
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$47) and \$4	(150)6
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$20) and (\$15)	(63)(24)
Foreign currency translation adjustments, net of income taxes of \$0 and \$1	(2)1
Net pension and postretirement benefit costs, net of income taxes of \$1 and \$2	3 4
Total other comprehensive income (loss), net of tax	(212)(13)
Comprehensive income (loss)	206 312
Less: Comprehensive income attributable to noncontrolling interests	— 1
Comprehensive income (loss) attributable to Key	\$206 \$311

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Changes in Equity

dollars in millions, except per share amounts (Unaudited)	Key Shareholders' Equity						Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings			
BALANCE AT DECEMBER 31, 2016	17,421	1,079,314	\$ 1,665	\$ 1,257	\$ 6,385	\$ 9,378	\$(2,904)	\$ (541)	\$ —
Net income (loss)						324			1
Other comprehensive income (loss)								(13)	
Deferred compensation					3				
Cash dividends declared									
Common Shares (\$.085 per share)						(90)			
Series A Preferred Stock (\$1.9375 per share)						(6)			
Series C Preferred Stock (\$.539063 per share)						(7)			
Series D Preferred Stock (\$12.50 per share)						(7)			
Series E Preferred Stock (\$.395573 per share)						(8)			
Open market Common Share repurchases		(5,844)					(107)		
Employee equity compensation program Common Share repurchases		(2,829)					(53)		
Series A Preferred Stock exchanged for Common Shares	(2,900)	20,568	(290)		(49)		338		
Redemption of Series C Preferred Stock	(14,000)		(350)						
Common Shares reissued (returned) for stock options and other employee benefit plans		6,270			(52)		103		
Net contribution from (distribution to) noncontrolling interests									1
BALANCE AT MARCH 31, 2017	521	1,097,479	\$ 1,025	\$ 1,257	\$ 6,287	\$ 9,584	\$(2,623)	\$ (554)	\$ 2
BALANCE AT DECEMBER 31, 2017	521	1,069,084	\$ 1,025	\$ 1,257	\$ 6,335	\$ 10,335	\$(3,150)	\$ (779)	\$ 2
Cumulative effect from changes in accounting principle (a)						(2)			
Net income (loss)						418		(212)	—

Other comprehensive income (loss)									
Deferred compensation					6				
Cash dividends declared									
Common Shares (\$.105 per share)						(112)		
Series D Preferred Stock (\$12.50 per share)						(7)		
Series E Preferred Stock (\$.382813 per share)						(8)		
Open market Common Share repurchases	(7,333	)					(156)	
Employee equity compensation program Common Share repurchases	(2,066	)					(43)	
Common Shares reissued (returned) for stock options and other employee benefit plans	5,254					(52	)	89	
BALANCE AT MARCH 31, 2018	521	1,064,939	\$ 1,025	\$ 1,257	\$ 6,289	\$ 10,624	\$(3,260)	\$(991	) \$ 2

(a) Includes the impact of implementing ASU 2014-09, ASU 2016-01, and ASU 2017-12. See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows

in millions	Three months ended March 31,	
(Unaudited)	2018	2017
OPERATING ACTIVITIES		
Net income (loss)	\$418	\$325
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for credit losses	61	63
Depreciation and amortization expense, net	103	100
Accretion of acquired loans	27	43
Increase in cash surrender value of corporate-owned life insurance	(28)	(28)
Stock-based compensation expense	27	27
FDIC reimbursement (payments), net of FDIC expense	1	(2)
Deferred income taxes (benefit)	22	137
Proceeds from sales of loans held for sale	2,748	2,334
Originations of loans held for sale, net of repayments	(3,280)	(2,562)
Net losses (gains) on sales of loans held for sale	(44)	(35)
Net losses (gains) and writedown on OREO	—	1
Net losses (gains) on leased equipment	3	(2)
Net securities losses (gains)	—	(1)
Net losses (gains) on sales of fixed assets	—	12
Net decrease (increase) in trading account assets	67	(54)
Other operating activities, net	(336)	(763)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(211)	(405)
INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments, excluding acquisitions	2,803	250
Purchases of securities available for sale	(787)	(195)
Proceeds from sales of securities available for sale	—	912
Proceeds from prepayments and maturities of securities available for sale	833	1,061
Proceeds from prepayments and maturities of held-to-maturity securities	398	456
Purchases of held-to-maturity securities	(756)	(411)
Purchases of other investments	(4)	(2)
Proceeds from sales of other investments	10	51
Proceeds from prepayments and maturities of other investments	—	1
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	(1,793)	(255)
Proceeds from sales of portfolio loans	38	37
Proceeds from corporate-owned life insurance	18	9
Purchases of premises, equipment, and software	(19)	(2)
Proceeds from sales of premises and equipment	1	—
Proceeds from sales of OREO	7	11
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	749	1,923
FINANCING ACTIVITIES		
Net increase (decrease) in deposits, excluding acquisitions	(484)	(105)
Net increase (decrease) in short-term borrowings	738	(925)
Net proceeds from issuance of long-term debt	501	—
Payments on long-term debt	(1,005)	(10)
Open market common share repurchases	(156)	(107)
Employee equity compensation program common share repurchases	(43)	(53)

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Redemption of Preferred Stock Series C	—	(350)
Net proceeds from reissuance of common shares	10	22
Cash dividends paid	(127)	(118)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(566)	(1,646)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(28)	(128)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	671	677
CASH AND DUE FROM BANKS AT END OF PERIOD	\$643	\$549
Additional disclosures relative to cash flows:		
Interest paid	\$199	\$151
Income taxes paid (refunded)	9	(11)
Noncash items:		
Reduction of secured borrowing and related collateral	\$7	13
Loans transferred to portfolio from held for sale	14	8
Loans transferred to held for sale from portfolio	—	25
Loans transferred to OREO	4	11

See Notes to Consolidated Financial Statements (Unaudited).

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Accounting Policies

The consolidated financial statements include the accounts of KeyCorp and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Some previously reported amounts have been reclassified to conform to current reporting practices.

The consolidated financial statements include any voting rights entities in which we have a controlling financial interest. In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly affect the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements, and financial instruments. See Note 9 ("Variable Interest Entities") for information on our involvement with VIEs.

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

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2017 Form 10-K.

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users or filed with the SEC.

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Accounting Guidance Adopted in 2018

Standard	Date of Adoption	Description	Effect on Financial Statements or Other Significant Matters
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	January 1, 2018	These ASUs supersede the revenue recognition guidance in ASC 605, Revenue Recognition, and most industry-specific guidance. The core principle of these ASUs is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	On January 1, 2018, we adopted ASC 606, Revenue from Contracts with Customers (ASC 606), using the modified retrospective method for those contracts which were not completed as of that date. Results for reporting periods beginning January 1, 2018 are presented under ASC 606. As allowed under the new guidance, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.
ASU 2015-14, Deferral of Effective Date			
ASU 2016-08, Principal versus Agent Considerations			
ASU 2016-10, Identifying Performance Obligations and Licensing		These ASUs can be implemented using a retrospective method, or a cumulative-effect approach to new contracts and existing contracts with performance obligations as of the effective date.	As a result of adopting ASC 606, we changed the timing of recognition for revenues related to insurance commissions, securities underwriting, and deposit account maintenance fees, however, those changes did not have a material impact on our consolidated financial statements, results of operations, equity, or cash flows as of the adoption date or for the three months ended March 31, 2018.
ASU 2016-11, Rescission of SEC Guidance because of Accounting Standard Updates 2014-09 and 2014-16 pursuant to Staff Announcements at the March 3, 2016 EITF Meeting			
ASU 2016-12, Narrow-scope Improvements and Practical Expedients			
ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers			The presentation of underwriting costs and reimbursed out-of-pocket expenses related to underwriting and M&A advisory services was changed from net to gross within the income statement as Key acts as the principal in the transactions. Securities underwriting revenue is recorded within "investment banking and debt placement fees" and underwriting costs and reimbursed out-of-pocket expenses within "other expense" on the income statement. Additionally, because Key acts as an agent, certain credit and debit card reward costs and certain card network costs were changed from a gross presentation to net within "cards and payment income" on the income statement. Credit and debit card reward costs and card network costs were recorded as "other expense" on the income statement in prior periods. These changes in presentation did not have a material impact on our consolidated financial statements for the three months ended March 31, 2018.
			ASC 606 requires quantitative disclosure of the allocation of the transaction price to the remaining performance obligations when those

amounts are expected to be recognized as revenue. However, the standard provides exemptions from this disclosure for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services provided. Most of our revenue subject to ASC 606 fits into one of these exemptions, or is immaterial. We elected to use the optional exemption to not disclose the aggregate amount of the transaction price to remaining performance obligations.

On January 1, 2018 we adopted this ASU using a modified retrospective basis. Accordingly, our financial statements for the quarter ended March 31, 2018, include an immaterial cumulative-effect adjustment to decrease opening retained earnings to reflect the application of the new guidance as of January 1, 2018. The primary impact to Key at adoption was the election to measure the change in fair value of hedged items in fair value hedges on the basis of the benchmark interest rate component of contractual coupon cash flows. This change has resulted in a reduction of hedge ineffectiveness for impacted fair value hedges.

Instruments designated as hedges are recorded at fair value and included in “accrued income and other assets” or “accrued expense and other liabilities” on the balance sheet. Under the revised guidance, the change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time and in the same income statement line as the offsetting change in the fair value of the hedged item. For cash flow hedges, the change in the fair value of an instrument designated as a cash flow hedge is initially recorded in AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item.

The ASU amends ASC Topic 815, Derivatives and Hedging, to simplify the requirements for hedge accounting and facilitate financial reporting that more closely aligns with an entity’s risk management activities. Key amendments include: eliminating the requirement to separately measure and report hedge ineffectiveness, requiring changes in the value of the hedging instrument to be presented in the same income statement line as the earnings effect of the hedged item, and the ability to measure the hedged item based on the benchmark interest rate component of the total contractual coupon for fair value hedges.

Additional disclosures are also required for reporting periods subsequent to the date of adoption.

The guidance should be implemented on a modified retrospective basis to existing hedge relationships as of the adoption date.

ASU 2017-12,
Targeted
Improvements to
Accounting for
Hedging Activities

January 1,
2018

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Standard	Date of Adoption	Description	Effect on Financial Statements or Other Significant Matters
ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities	January 1, 2018	<p>The ASU amends ASC Topic 825, Financial Instruments-Overall, and requires equity investments, except those accounted for under the equity method of accounting or consolidated, to be measured at fair value with changes recognized in net income. If there is no readily determinable fair value, the guidance allows entities the ability to measure investments at cost less impairment, whereby impairment is based on a qualitative assessment. The guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost and changes the presentation of financial assets and financial liabilities on the balance sheet or in the footnotes. If an entity has elected the fair value option to measure liabilities, the new accounting guidance requires the portion of the change in the fair value of a liability resulting from credit risk to be presented in OCI.</p> <p>With the exception of disclosure requirements that will be adopted prospectively, the ASU must be adopted on a modified retrospective basis.</p>	The adoption of this guidance did not have a material effect on our financial condition or results of operations.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	January 1, 2018	<p>The ASU amends ASC Topic 230, Statement of Cash Flows, and clarifies how cash receipts and cash payments in certain transactions should be presented and classified in the statement of cash flows. These specific transactions include, but are not limited to, debt prepayment or extinguishment costs, contingent considerations made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions from equity method investees. This guidance also clarifies that in instances of cash flows with multiple aspects that cannot be separately identified, classification should be based on the activity that is likely to be the predominant source of or use of cash flow.</p>	The adoption of this guidance did not have a material effect on our financial condition or results of operations.
ASU 2017-01, Clarifying the Definition of a Business	January 1, 2018	<p>The guidance should be implemented using a retrospective approach. The ASU amends Topic 805, Business Combinations, and clarifies the definition of a business and removes the requirement for a market participant to consider whether it could replace missing elements in an integrated set of assets and activities. The guidance states that if substantially all of the fair value of the assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business.</p> <p>The guidance should be implemented using a prospective approach.</p>	The adoption of this guidance did not have a material effect on our financial condition or results of operations.

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ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets	January 1, 2018	The ASU amends ASC Topic 610-20, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets to clarify the scope of the Topic by clarifying the definition of the term "in substance nonfinancial asset" and also adding guidance for partial sales of nonfinancial assets. Under the new guidance, an entity will derecognize a nonfinancial asset when it does not have or ceases to have a controlling interest in the legal entity that holds the asset and when control of the asset has transferred in accordance with ASC 606. The ASU can be adopted on a retrospective or modified retrospective approach.	The adoption of this guidance did not have a material effect on our financial condition or results of operations.
ASU 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	January 1, 2018	The ASU amends ASC Topic 715, Compensation - Retirement Benefits, and requires service costs to be included in the same line item as certain other compensation costs related to services rendered by employees. We record compensation costs under personnel expense on the income statement. Other elements of net benefit cost should be presented separately.	The adoption of this guidance did not have a material effect on our financial condition or results of operations.
ASU 2017-09, Scope of Modification Accounting	January 1, 2018	The guidance should be implemented on a retrospective basis. The ASU amends ASC Topic 718, Compensation - Stock Compensation, and clarifies when changes to terms and conditions for share-based payment awards should be accounted for as modifications. Under the new guidance, entities should apply the modification guidance unless the fair value of the modified award is the same as the fair value of the original award immediately before modification, the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before modification, and the classification of the modified award (as equity or liability instrument) is the same as the classification of the original award immediately before modification.	The adoption of this guidance did not have a material effect on our financial condition or results of operations.
		The guidance should be applied on a prospective basis.	

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2. Earnings Per Common Share

Basic earnings per share is the amount of earnings (adjusted for dividends declared on our preferred stock) available to each common share outstanding during the reporting periods. Diluted earnings per share is the amount of earnings available to each common share outstanding during the reporting periods adjusted to include the effects of potentially dilutive common shares. Potentially dilutive common shares include stock options and other stock-based awards. Potentially dilutive common shares are excluded from the computation of diluted earnings per share in the periods where the effect would be antidilutive.

Our basic and diluted earnings per common share are calculated as follows:

	Three months ended March 31, 2018 2017	
dollars in millions, except per share amounts		
EARNINGS		
Income (loss) from continuing operations	\$416	\$ 325
Less: Net income (loss) attributable to noncontrolling interests	—	1
Income (loss) from continuing operations attributable to Key	416	324
Less: Dividends on Preferred Stock	14	28
Income (loss) from continuing operations attributable to Key common shareholders	402	296
Income (loss) from discontinued operations, net of taxes	2	—
Net income (loss) attributable to Key common shareholders	\$404	\$ 296
WEIGHTED-AVERAGE COMMON SHARES		
Weighted-average common shares outstanding (000)	1,056,000	1,078,609
Effect of common share options and other stock awards	15,749	17,931
Weighted-average common shares and potential common shares outstanding (000) ^(a)	1,071,749	1,096,540
EARNINGS PER COMMON SHARE		
Income (loss) from continuing operations attributable to Key common shareholders	\$.38	\$.27
Income (loss) from discontinued operations, net of taxes	—	—
Net income (loss) attributable to Key common shareholders ^(b)	.38	.27
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	\$.38	\$.27
Income (loss) from discontinued operations, net of taxes	—	—
Net income (loss) attributable to Key common shareholders — assuming dilution ^(b)	.38	.27

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

^(b) EPS may not foot due to rounding.

3. Loans and Loans Held for Sale

in millions	March 31, December 31, 2018 2017	
Commercial and industrial ^(a)	\$ 44,313	\$ 41,859
Commercial real estate:		
Commercial mortgage	13,997	14,088
Construction	1,871	1,960
Total commercial real estate loans	15,868	16,048

Commercial lease financing ^(b)	4,598	4,826
Total commercial loans	64,779	62,733
Residential — prime loans:		
Real estate — residential mortgage	5,473	5,483
Home equity loans	11,720	12,028
Total residential — prime loans	17,193	17,511
Consumer direct loans	1,758	1,794
Credit cards	1,068	1,106
Consumer indirect loans	3,291	3,261
Total consumer loans	23,310	23,672
Total loans ^(c)	\$ 88,089	\$ 86,405

(a) Loan balances include \$121 million and \$119 million of commercial credit card balances at March 31, 2018, and December 31, 2017, respectively.

(b) Commercial lease financing includes receivables held as collateral for a secured borrowing of \$16 million and \$24 million at March 31, 2018, and December 31, 2017, respectively. Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 20 (“Long-Term Debt”) beginning on page 174 of our 2017 Form 10-K.

(c) Total loans exclude loans of \$1.3 billion at March 31, 2018, and \$1.3 billion at December 31, 2017, related to the discontinued operations of the education lending business.

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Our loans held for sale are summarized as follows:

in millions	March 31, December 31,	
	2018	2017
Commercial and industrial	\$ 194	\$ 139
Real estate — commercial mortgage	1,426	897
Real estate — residential mortgage ^(a)	47	71
Total loans held for sale	\$ 1,667	\$ 1,107

Real estate — residential mortgage loans held for sale are held at fair value at March 31, 2018, and December 31, 2017. The contractual amount due on these loans totaled \$47 million at March 31, 2018, and \$71 million at (a)December 31, 2017. Changes in fair value are recorded in “Consumer mortgage income” on the income statement. Additional information regarding the residential mortgage loans held for sale fair value methodology is provided in Note 5 (“Fair Value Measurements”).

Our quarterly summary of changes in loans held for sale is provided below:

in millions	March 31, December 31,	
	2018	2017
Balance at beginning of the period	\$ 1,107	\$ 1,341
New originations	3,280	3,566
Transfers from (to) held to maturity, net	(14)	(10)
Loan sales	(2,705)	(3,783)
Loan draws (payments), net	(1)	(7)
Balance at end of period ^(a)	\$ 1,667	\$ 1,107

(a) Total loans held for sale include real estate — residential mortgage loans held for sale at fair value of \$47 million at (a)March 31, 2018 and \$71 million at December 31, 2017.

4. Asset Quality

We assess the credit quality of the loan portfolio by monitoring net credit losses, levels of nonperforming assets, delinquencies, and credit quality ratings as defined by management.

Credit Quality Indicators

The prevalent risk characteristic for both commercial and consumer loans is the risk of loss arising from an obligor’s inability or failure to meet contractual payment or performance terms. Evaluation of this risk is stratified and monitored by the loan risk rating grades assigned for the commercial loan portfolios and the refreshed FICO score assigned for the consumer loan portfolios.

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

Commercial Credit Exposure — Excluding PCI
 Credit Risk Profile by Creditworthiness Category ^{(a), (b)}

in millions	Commercial and industrial		RE — Commercial		RE — Construction		Commercial lease		Total	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
RATING										
Pass	\$42,191	\$ 39,833	\$ 13,159	\$ 13,328	\$ 1,815	\$ 1,894	\$ 4,503	\$ 4,730	\$ 61,668	\$ 59,785
Criticized (Accruing)	1,860	1,790	564	482	51	38	90	90	2,565	2,400
Criticized (Nonaccruing)	189	153	33	30	2	2	5	6	229	191
Total	\$44,240	\$ 41,776	\$ 13,756	\$ 13,840	\$ 1,868	\$ 1,934	\$ 4,598	\$ 4,826	\$ 64,462	\$ 62,376

(a) Credit quality indicators are updated on an ongoing basis and reflect credit quality information as of the dates indicated.

The term criticized refers to those loans that are internally classified by Key as special mention or worse, which are (b) asset quality categories defined by regulatory authorities. These assets have an elevated level of risk and may have a high probability of default or total loss. Pass rated refers to all loans not classified as criticized.

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Consumer Credit Exposure — Excluding PCI

Non-PCI Loans by Refreshed FICO Score ^(a)

in millions	Residential — Prime		Consumer direct loans		Credit cards		Consumer indirect loans		Total	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
FICO SCORE										
750 and above	\$ 10,046	\$ 10,226	\$ 503	\$ 519	\$ 451	\$ 477	\$ 1,449	\$ 1,472	\$ 12,449	\$ 12,694
660 to 749	5,028	5,181	665	690	499	508	1,172	1,184	7,364	7,563
Less than 660	1,475	1,519	220	225	118	121	515	529	2,328	2,394
No Score	275	208	366	356	—	—	155	76	796	640
Total	\$ 16,824	\$ 17,134	\$ 1,754	\$ 1,790	\$ 1,068	\$ 1,106	\$ 3,291	\$ 3,261	\$ 22,937	\$ 23,291

Borrower FICO scores provide information about the credit quality of our consumer loan portfolio as they provide (a) an indication as to the likelihood that a debtor will repay its debts. The scores are obtained from a nationally recognized consumer rating agency and are presented in the above table at the dates indicated.

Commercial Credit Exposure — PCI

Credit Risk Profile by Creditworthiness Category ^{(a), (b)}

in millions	Commercial and Industrial		RE — Commercial		RE — Construction		Commercial Lease		Total	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
RATING										
Pass	\$ 27	\$ 41	\$ 163	\$ 153	\$ 3	\$ 26	—	—	\$ 193	\$ 220
Criticized	46	42	78	95	—	—	—	—	124	137
Total	\$ 73	\$ 83	\$ 241	\$ 248	\$ 3	\$ 26	—	—	\$ 317	\$ 357

(a) Credit quality indicators are updated on an ongoing basis and reflect credit quality information as of the dates indicated.

The term “criticized” refers to those loans that are internally classified by Key as special mention or worse, which are (b) asset quality categories defined by regulatory authorities. These assets have an elevated level of risk and may have a high probability of default or total loss. Pass rated refers to all loans not classified as criticized.

Consumer Credit Exposure — PCI

PCI Loans by Refreshed FICO Score ^(a)

in millions	Residential — Prime		Consumer direct loans		Credit cards		Consumer indirect loans		Total	
	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017	March 31, 2018	December 31, 2017
FICO SCORE										
750 and above	\$ 139	\$ 149	—	—	—	—	—	—	\$ 139	\$ 149
660 to 749	119	117	\$ 2	\$ 2	—	—	—	—	121	119
Less than 660	99	105	2	2	—	—	—	—	101	107
No Score	12	6	—	—	—	—	—	—	12	6
Total	\$ 369	\$ 377	\$ 4	\$ 4	—	—	—	—	\$ 373	\$ 381

Borrower FICO scores provide information about the credit quality of our consumer loan portfolio as they provide (a) an indication as to the likelihood that a debtor will repay its debts. The scores are obtained from a nationally recognized consumer rating agency and are presented in the above table at the dates indicated.

Nonperforming and Past Due Loans

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (“Summary of Significant Accounting Policies”) under the heading “Nonperforming Loans” beginning on page 101 of our 2017 Form 10-K.

The following aging analysis of past due and current loans as of March 31, 2018, and December 31, 2017, provides further information regarding Key’s credit exposure.

Table of ContentsAging Analysis of Loan Portfolio ^(a)

March 31, 2018

in millions	Current	30-59 Days Past Due ^(b)	60-89 Days Past Due ^(b)	90 and Greater Days Past Due ^(b)	Non-performing Loans	Total Past Due and Non-performing Loans	Purchased Credit Impaired	Total Loans ^{(c), (d)}
LOAN TYPE								
Commercial and industrial	\$43,905	\$ 93	\$ 26	\$ 27	\$ 189	\$ 335	\$ 73	\$44,313
Commercial real estate:								
Commercial mortgage	13,684	17	9	13	33	72	241	13,997
Construction	1,829	26	9	2	2	39	3	1,871
Total commercial real estate loans	15,513	43	18	15	35	111	244	15,868
Commercial lease financing	4,577	4	4	8	5	21	—	4,598
Total commercial loans	\$63,995	\$ 140	\$ 48	\$ 50	\$ 229	\$ 467	\$ 317	\$64,779
Real estate — residential mortgage	\$5,044	\$ 14	\$ 5	\$ 4	\$ 59	\$ 82	\$ 347	\$5,473
Home equity loans	11,424	25	10	10	229	274	22	11,720
Consumer direct loans	1,720	21	4	5	4	34	4	1,758
Credit cards	1,045	6	4	11	2	23	—	1,068
Consumer indirect loans	3,243	22	6	2	18	48	—	3,291
Total consumer loans	\$22,476	\$ 88	\$ 29	\$ 32	\$ 312	\$ 461	\$ 373	\$23,310
Total loans	\$86,471	\$ 228	\$ 77	\$ 82	\$ 541	\$ 928	\$ 690	\$88,089

Amounts in table represent recorded investment and exclude loans held for sale. Recorded investment represents (a) the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs.

Past due loan amounts exclude PCI, even if contractually past due (or if we do not expect to collect principal or (b) interest in full based on the original contractual terms), as we are currently accreting income over the remaining term of the loans.

(c) Net of unearned income, net deferred loan fees and costs, and unamortized discounts and premiums.

(d) Future accretable yield related to PCI loans is not included in the analysis of the loan portfolio.

December 31, 2017

in millions	Current	30-59 Days Past Due ^(b)	60-89 Days Past Due ^(b)	90 and Greater Days Past Due ^(b)	Non-performing Loans	Total Past Due and Non-performing Loans	Purchased Credit Impaired	Total Loans ^{(c), (d)}
LOAN TYPE								
Commercial and industrial	\$41,444	\$ 111	\$ 34	\$ 34	\$ 153	\$ 332	83	\$41,859
Commercial real estate:								
Commercial mortgage	13,750	26	13	21	30	90	248	14,088
Construction	1,919	4	9	—	2	15	26	1,960
Total commercial real estate loans	15,669	30	22	21	32	105	274	16,048
Commercial lease financing	4,791	23	4	2	6	35	—	4,826
Total commercial loans	\$61,904	\$ 164	\$ 60	\$ 57	\$ 191	\$ 472	357	\$62,733
Real estate — residential mortgage	\$5,043	\$ 16	\$ 7	\$ 4	\$ 58	\$ 85	\$ 355	\$5,483
Home equity loans	11,721	32	15	9	229	285	22	12,028
Consumer direct loans	1,768	9	4	5	4	22	4	1,794
Credit cards	1,081	7	5	11	2	25	—	1,106
Consumer indirect loans	3,199	33	7	3	19	62	—	3,261
Total consumer loans	\$22,812	\$ 97	\$ 38	\$ 32	\$ 312	\$ 479	\$ 381	\$23,672

Total loans	\$84,716	\$ 261	\$ 98	\$ 89	\$ 503	\$ 951	\$ 738	\$86,405
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Amounts in table represent recorded investment and exclude loans held for sale. Recorded investment represents (a) the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs.

Past due loan amounts exclude PCI, even if contractually past due (or if we do not expect to collect principal or (b) interest in full based on the original contractual terms), as we are currently accreting income over the remaining term of the loans.

(c) Net of unearned income, net deferred loan fees and costs, and unamortized discounts and premiums.

(d) Future accretable yield related to purchased credit impaired loans is not included in the analysis of the loan portfolio.

At March 31, 2018, the approximate carrying amount of our commercial nonperforming loans outstanding represented 70% of their original contractual amount owed, total nonperforming loans outstanding represented 79% of their original contractual amount owed, and nonperforming assets in total were carried at 79% of their original contractual amount owed.

Nonperforming loans and loans held for sale reduced expected interest income by \$7 million for the three months ended March 31, 2018, and \$6 million for the three months ended March 31, 2017.

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The following tables set forth a further breakdown of individually impaired loans as of March 31, 2018, and December 31, 2017:

March 31, 2018 in millions	Recorded Investment ^(a)	Unpaid Principal Balance ^(b)	Specific Allowance
With no related allowance recorded:			
Commercial and industrial	\$ 166	\$ 206	—
Commercial real estate:			
Commercial mortgage	13	18	—
Total commercial real estate loans	13	18	—
Total commercial loans	179	224	—
Real estate — residential mortgage	17	26	—
Home equity loans	58	67	—
Consumer indirect loans	2	4	—
Total consumer loans	77	97	—
Total loans with no related allowance recorded	256	321	—
With an allowance recorded:			
Commercial and industrial	4	13	\$ 1
Total commercial loans	4	13	1
Real estate — residential mortgage	32	49	4
Home equity loans	65	70	9
Consumer direct loans	4	4	—
Credit cards	3	3	—
Consumer indirect loans	33	33	4
Total consumer loans	137	159	17
Total loans with an allowance recorded	141	172	18
Total	\$ 397	\$ 493	\$ 18

The Recorded Investment represents the face amount of the loan increased or decreased by applicable accrued (a) interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our Consolidated Balance Sheet.

(b) The Unpaid Principal Balance represents the customer's legal obligation to us.

December 31, 2017 in millions	Recorded Investment ^(a)	Unpaid Principal Balance ^(b)	Specific Allowance
With no related allowance recorded:			
Commercial and industrial	\$ 126	\$ 153	—
Commercial real estate:			
Commercial mortgage	12	18	—
Total commercial real estate loans	12	18	—
Total commercial loans	138	171	—
Real estate — residential mortgage	17	17	—
Home equity loans	56	56	—
Consumer indirect loans	2	2	—
Total consumer loans	75	75	—
Total loans with no related allowance recorded	213	246	—
With an allowance recorded:			
Commercial and industrial	10	28	\$ 6

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Total commercial loans	10	28	6
Real estate — residential mortgage	32	32	5
Home equity loans	61	61	9
Consumer direct loans	4	4	—
Credit cards	2	2	—
Consumer indirect loans	32	32	3
Total consumer loans	131	131	17
Total loans with an allowance recorded	141	159	23
Total	\$ 354	\$ 405	\$ 23

The Recorded Investment represents the face amount of the loan increased or decreased by applicable accrued (a) interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our Consolidated Balance Sheet.
(b) The Unpaid Principal Balance represents the customer's legal obligation to us.

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The following table sets forth a further breakdown of the average individually impaired loans reported by Key:

Average Recorded Investment (a)	Three Months Ended March 31,	
in millions	2018	2017
Commercial and industrial	\$ 153	\$ 260
Commercial real estate:		
Commercial mortgage	12	10
Construction	—	—
Total commercial real estate loans	12	10
Total commercial loans	165	270
Real estate — residential mortgage	49	51
Home equity loans	120	125
Consumer direct loans	4	3
Credit cards	3	2
Consumer indirect loans	35	33
Total consumer loans	211	214
Total	\$ 376	\$ 484

The Recorded Investment represents the face amount of the loan increased or decreased by applicable accrued (a) interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our Consolidated Balance Sheet.

For the three months ended March 31, 2018 and March 31, 2017, interest income recognized on the outstanding balances of accruing impaired loans totaled \$2 million and \$3 million, respectively.

TDRs

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession without commensurate financial, structural, or legal consideration. Acquired loans that were previously modified by First Niagara in a TDR are no longer classified as TDRs at the Acquisition Date. An acquired loan may only be classified as a TDR if a modification meeting the above TDR criteria is performed after the Acquisition Date. PCI loans cannot be classified as TDRs. All commercial and consumer loan TDRs, regardless of size, are individually evaluated for impairment to determine the probable loss content and are assigned a specific loan allowance. This designation has the effect of moving the loan from the general reserve methodology (i.e., collectively evaluated) to the specific reserve methodology (i.e., individually evaluated) and may impact the ALLL through a charge-off or increased loan loss provision. These components affect the ultimate allowance level.

As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the ALLL. Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are \$2 million and \$2 million at March 31, 2018 and December 31, 2017, respectively.

Our loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower's financial needs. The consumer TDR other concession category primarily includes those borrowers' debts that are discharged through bankruptcy and have not been formally re-affirmed. At March 31, 2018, and December 31, 2017, the recorded investment of consumer residential mortgage

loans in the process of foreclosure was approximately \$155 million and \$142 million, respectively. At March 31, 2018, and December 31, 2017, we had \$28 million and \$31 million, respectively, of OREO which included the carrying value of foreclosed residential real estate of approximately \$22 million and \$26 million, respectively.

The following table shows the post-modification outstanding recorded investment by concession type for our commercial and consumer accruing and nonaccruing TDRs that occurred during the periods indicated:

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	Three Months Ended March 31, 2018	2017
in millions		
Commercial loans:		
Interest rate reduction	—	—
Forgiveness of principal	—	—
Extension of Maturity Date	\$1	\$3
Payment or Covenant Modification/Deferment	—	25
Bankruptcy Plan Modification	—	—
Total	\$1	\$28
Consumer loans:		
Interest rate reduction	\$8	\$2
Forgiveness of principal	—	—
Other	12	13
Total	\$20	\$15
Total commercial and consumer TDRs	\$21	\$43

The following table summarizes the change in the post-modification outstanding recorded investment of our accruing and nonaccruing TDRs during the periods indicated:

	Three Months Ended March 31, 2018	2017
in millions		
Balance at beginning of the period	\$317	280
Additions	21	47
Payments	(19)	(14)
Charge-offs	(2)	\$(11)
Balance at end of period ^(a)	\$317	\$302

A further breakdown of TDRs included in nonperforming loans by loan category for the periods indicated are as follows:

March 31, 2018	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
dollars in millions			
LOAN TYPE			
Nonperforming:			
Commercial and industrial	30	\$ 109	\$ 77
Commercial real estate:			
Commercial mortgage	7	14	9
Total commercial real estate loans	7	14	9
Total commercial loans	37	123	86
Real estate — residential mortgage	264	17	17

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Home equity loans	1,133	68	61
Consumer direct loans	104	2	2
Credit cards	277	1	1
Consumer indirect loans	868	16	13
Total consumer loans	2,646	104	94
Total nonperforming TDRs	2,683	227	180
Prior-year accruing: ^(a)			
Commercial and industrial	14	30	13
Commercial real estate			
Commercial mortgage	2	3	3
Total commercial real estate loans	2	3	3
Total commercial loans	16	33	16
Real estate — residential mortgage	516	32	31
Home equity loans	1,338	78	62
Consumer direct loans	74	4	3
Credit cards	493	2	2
Consumer indirect loans	450	33	23
Total consumer loans	2,871	149	121
Total prior-year accruing TDRs	2,887	182	137
Total TDRs	5,570	\$ 409	\$ 317

(a) All TDRs that were restructured prior to January 1, 2018, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2017, follows:
December 31, 2017

dollars in millions	Pre-modification		Post-modification
	Number Outstanding of Loans Recorded Investment	Outstanding Recorded Investment	Outstanding Recorded Investment
LOAN TYPE			
Nonperforming:			
Commercial and industrial	20	\$ 109	\$ 86
Commercial real estate:			
Commercial mortgage	8	16	12
Total commercial real estate loans	8	16	12
Total commercial loans	28	125	98
Real estate — residential mortgage	308	18	18
Home equity loans	1,025	64	57
Consumer direct loans	114	2	2
Credit cards	322	2	1
Consumer indirect loans	825	16	13
Total consumer loans	2,594	102	91
Total nonperforming TDRs	2,622	227	189
Prior-year accruing: ^(a)			
Commercial and Industrial	4	30	13
Total commercial loans	4	30	13
Real estate — residential mortgage	484	31	31
Home equity loans	1,276	75	59
Consumer direct loans	48	3	2
Credit cards	430	1	1
Consumer indirect loans	320	31	22
Total consumer loans	2,558	141	115
Total prior-year accruing TDRs	2,562	171	128
Total TDRs	5,184	\$ 398	\$ 317

(a) All TDRs that were restructured prior to January 1, 2017, and are fully accruing.

Commercial loan TDRs are considered defaulted when principal and interest payments are 90 days past due. Consumer loan TDRs are considered defaulted when principal and interest payments are more than 60 days past due. During the three months ended March 31, 2018, there were no commercial loan TDRs and 41 consumer loan TDRs with a combined recorded investment of \$1 million that experienced payment defaults after modifications resulting in TDR status during 2017. During the three months ended March 31, 2017, there were no commercial loan TDRs and 3 consumer loan TDRs with a combined recorded investment of less than \$1 million that experienced payment defaults after modifications resulting in TDR status during 2016.

ALLL and Liability for Credit Losses on Unfunded Lending-Related Commitments

We determine the appropriate level of the ALLL on at least a quarterly basis. The methodology is described in Note 1 (“Summary of Significant Accounting Policies”) under the heading “Allowance for Loan and Lease Losses” beginning on page 102 of our 2017 Form 10-K.

The ALLL on the acquired non-impaired loan portfolio is estimated using the same methodology as the originated portfolio, however, the estimated ALLL is compared to the remaining accretable yield to determine if an ALLL must

be recorded. For PCI loans, Key estimates cash flows expected to be collected quarterly. Decreases in expected cash flows are recognized as impairment through a provision for loan and lease losses and an increase in the ALLL. There was \$3 million of provision for loan and lease losses on PCI loans during the three months ended March 31, 2018. There was \$3 million of provision for loan and lease losses on PCI loans during the twelve months ended December 31, 2017. There was \$4 million of provision for loan and lease losses on PCI loans during the three months ended March 31, 2017.

The ALLL at March 31, 2018, represents our best estimate of the incurred credit losses inherent in the loan portfolio at that date. A summary of the changes in the ALLL for the periods indicated is presented in the table below:

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	Three months ended March 31,	
in millions	2018	2017
Balance at beginning of period — continuing operations	\$877	\$858
Charge-offs	(72)	(77)
Recoveries	18	19
Net loans and leases charged off	(54)	(58)
Provision for loan and lease losses from continuing operations	58	70
Balance at end of period — continuing operations	\$881	\$870

The changes in the ALLL by loan category for the periods indicated are as follows:

Three months ended March 31, 2018:

in millions	December 31, 2017	Provision	Charge-offs	Recoveries	March 31, 2018
Commercial and Industrial	\$ 529	\$ 35	\$ (37)	\$ 6	\$ 533
Commercial real estate:					
Real estate — commercial mortgage	133	4	(1)	—	136
Real estate — construction	30	2	—	1	33
Total commercial real estate loans	163	6	(1)	1	169
Commercial lease financing	43	(3)	(1)	1	40
Total commercial loans	735	38	(39)	8	742
Real estate — residential mortgage	7	3	(1)	—	9
Home equity loans	43	(4)	(4)	3	38
Consumer direct loans	28	5	(8)	2	27
Credit cards	44	12	(12)	1	45
Consumer indirect loans	20	4	(8)	4	20
Total consumer loans	142	20	(33)	10	139
Total ALLL — continuing operations	877	58	^(a) (72)	18	881
Discontinued operations	16	2	(4)	2	16
Total ALLL — including discontinued operations	\$ 893	\$ 60	\$ (76)	\$ 20	\$ 897

(a) Excludes a provision for losses on lending-related commitments of \$3 million.

Three months ended March 31, 2017:

in millions	December 31, 2016	Provision	Charge-offs	Recoveries	March 31, 2017
Commercial and Industrial	\$ 508	\$ 31	\$ (32)	\$ 5	\$ 512
Commercial real estate:					
Real estate — commercial mortgage	144	2	—	—	146
Real estate — construction	22	6	—	1	29
Total commercial real estate loans	166	8	—	1	175
Commercial lease financing	42	3	(7)	2	40

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Total commercial loans	716	42	(39) 8	727
Real estate — residential mortgage	17	(3) 2	2	18
Home equity loans	54	4	(8	) 3	53
Consumer direct loans	24	9	(10	) 1	24
Credit cards	38	10	(11	) 1	38
Consumer indirect loans	9	8	(11	) 4	10
Total consumer loans	142	28	(38	) 11	143
Total ALLL — continuing operations	858	70	(a) (77	) 19	870
Discontinued operations	24	3	(6	) 2	23
Total ALLL — including discontinued operations	\$ 882	\$ 73	\$ (83	) \$ 21	\$ 893

(a) Excludes a credit for losses on lending-related commitments of \$7 million.

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of March 31, 2018, follows:

March 31, 2018 in millions	Allowance			Outstanding Purchased Loans	Outstanding		Purchased Credit Impaired
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Collectively Evaluated for Impairment		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
Commercial and industrial	\$ 1	\$ 529	3	\$ 44,313	\$ 170	\$ 44,070	\$ 73
Commercial real estate:							
Commercial mortgage	—	132	4	13,997	13	13,743	241
Construction	—	33	—	1,871	—	1,868	3
Total commercial real estate loans	—	165	4	15,868	13	15,611	244
Commercial lease financing	—	40	—	4,598	—	4,598	—
Total commercial loans	1	734	7	64,779	183	64,279	317
Real estate — residential mortgage	4	3	2	5,473	49	5,077	347
Home equity loans	9	28	1	11,720	123	11,575	22
Consumer direct loans	—	27	—	1,758	4	1,750	4
Credit cards	—	45	—	1,068	3	1,065	—
Consumer indirect loans	4	16	—	3,291	35	3,256	—
Total consumer loans	17	119	3	23,310	214	22,723	373
Total ALLL — continuing operations	18	853	10	88,089	397	87,002	690
Discontinued operations	3	13	—	1,256 (a)	21	1,235 (a)	—
Total ALLL — including discontinued operations	\$ 21	\$ 866	10	\$ 89,345	\$ 418	\$ 88,237	\$ 690

(a) Amount includes \$2 million of loans carried at fair value that are excluded from ALLL consideration.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2017, follows:

December 31, 2017 in millions	Allowance			Outstanding Purchased Loans	Outstanding		Purchased Credit Impaired
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Collectively Evaluated for Impairment		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
Commercial and Industrial	\$ 6	\$ 520	3	\$ 41,859	\$ 136	\$ 41,640	\$ 83
Commercial real estate:							
Commercial mortgage	—	131	2	14,088	12	13,828	248
Construction	—	30	—	1,960	—	1,934	26
Total commercial real estate loans	—	161	2	16,048	12	15,762	274
Commercial lease financing	—	43	—	4,826	—	4,826	—
Total commercial loans	6	724	5	62,733	148	62,228	357
Real estate — residential mortgage	5	2	—	5,483	49	5,079	355
Home equity loans	9	33	1	12,028	117	11,889	22
Consumer direct loans	—	28	—	1,794	4	1,786	4
Credit cards	—	44	—	1,106	2	1,104	—
Consumer indirect loans	3	17	—	3,261	34	3,227	—
Total consumer loans	17	124	1	23,672	206	23,085	381
Total ALLL — continuing operations	23	848	6	86,405	354	85,313	738

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Discontinued operations	3	13	—	1,314	(a)	21	1,293	(a)	—
Total ALLL — including discontinued operations	\$26	\$ 861	\$ 6	\$87,719	\$ 375	\$ 86,606	\$ 738		

(a) Amount includes \$2 million of loans carried at fair value that are excluded from ALLL consideration.

The liability for credit losses inherent in unfunded lending-related commitments, such as letters of credit and unfunded loan commitments, is included in “accrued expense and other liabilities” on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary.

Changes in the liability for credit losses on unfunded lending-related commitments are summarized as follows:

	Three months ended March 31, 2018
in millions	2017
Balance at beginning of period	\$57
Provision (credit) for losses on lending-related commitments	3 (7)
Balance at end of period	\$60

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PCI Loans

Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are deemed PCI. Several factors were considered when evaluating whether a loan was considered a PCI loan, including the delinquency status of the loan, updated borrower credit status, geographic information, and updated LTV. In accordance with ASC 310-30, excluded from the purchased impaired loans were leases, revolving credit arrangements, and loans held for sale.

The excess of a PCI loan's contractually required payments over the amount of its undiscounted cash flows expected to be collected is referred to as the nonaccretable difference. The nonaccretable difference, which is not accreted into income, reflects estimated future credit losses and uncollectible contractual interest expected to be incurred over the life of the PCI loan. The excess of cash flows expected to be collected over the carrying amount of the PCI loans is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the PCI loans or pools using the level yield method.

Over the life of PCI loans, Key evaluates the remaining contractual required payments receivable and estimates cash flows expected to be collected. Contractually required payments receivable may increase or decrease for a variety of reasons, for example, when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. Cash flows expected to be collected on PCI loans are estimated by incorporating several key assumptions similar to the initial estimate of fair value. These key assumptions include probability of default, loss given default, and the amount of actual prepayments after the Acquisition Date. Increases in expected cash flows of PCI loans subsequent to acquisition are recognized prospectively through adjustment of the yield on the loans or pools over its remaining life, while decreases in expected cash flows are recognized as impairment through a provision for loan and lease losses and an increase in the ALLL.

The difference between the fair value of a non-impaired acquired loan and contractual amounts due at the acquisition date is accreted into income over the estimated life of the loan. Contractually required payments represent the total undiscounted amount of all uncollected principal and interest payments.

We have PCI loans from two separate acquisitions, one in 2012 and one in 2016. The following tables present the roll-forward of the accretable yield and the beginning and ending outstanding unpaid principal balance and carrying amount of all PCI loans for the three months ended March 31, 2018, and the twelve months ended December 31, 2017.

in millions	Three Months Ended March 31, 2018		
	Accretable Yield	Carrying Amount	Outstanding Unpaid Principal Balance
Balance at beginning of period	\$ 131	\$ 738	\$ 803
Additions	—		
Accretion	(12)		
Net reclassifications from nonaccretable to accretable	22		
Payments received, net	(9)		
Disposals	—		
Balance at end of period	\$ 132	\$ 680	\$ 737

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Twelve Months Ended
December 31,
2017

in millions	Outstanding		
	Accretible	Carrying	Unpaid
	Yield	Amount	Principal
			Balance
Balance at beginning of period	\$197	\$ 865	\$ 1,002
Additions	(32)		
Accretion	(44)		
Net reclassifications from nonaccretable to accretable	15		
Payments received, net	(4)		
Disposals	(1)		
Balance at end of period	\$131	\$ 738	\$ 803

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5. Fair Value Measurements

Fair Value Determination

We have established and documented our process for determining the fair values of our assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using valuation models or third-party pricing services. Both of these approaches rely on market-based parameters, when available, such as interest rate yield curves, option volatilities, and credit spreads, or on unobservable inputs. Unobservable inputs may be based on our judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

We make liquidity valuation adjustments to the fair value of certain assets to reflect the uncertainty in the pricing and trading of the instruments when we are unable to observe recent market transactions for identical or similar instruments. Liquidity valuation adjustments are based on the following factors:

- the amount of time since the last relevant valuation;
- whether there is an actual trade or relevant external quote available at the measurement date; and
- volatility associated with the primary pricing components.

We ensure that our fair value measurements are accurate and appropriate by relying upon various controls, including:

- an independent review and approval of valuation models and assumptions;
- recurring detailed reviews of profit and loss; and
- a validation of valuation model components against benchmark data and similar products, where possible.

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process. Various working groups that report to the Fair Value Committee analyze and approve the underlying assumptions and valuation adjustments. Changes in valuation methodologies for Level 1 and Level 2 instruments are presented to the Accounting Policy group for approval. Changes in valuation methodologies for Level 3 instruments are presented to the Fair Value Committee for approval. The working groups are discussed in more detail in the qualitative disclosures within this note. Formal documentation of the fair valuation methodologies is prepared by the lines of business and support areas as appropriate. The documentation details the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level, market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (“Summary of Significant Accounting Policies”) under the heading “Fair Value Measurements.”

Qualitative Disclosures of Valuation Techniques

Loans. Most loans recorded as trading account assets are valued based on market spreads for similar assets since they are actively traded. Therefore, these loans are classified as Level 2 because the fair value recorded is based on observable market data for similar assets.

Securities (trading and available for sale). We own several types of securities, requiring a range of valuation methods:

Securities are classified as Level 1 when quoted market prices are available in an active market for the identical securities. Level 1 instruments include exchange-traded equity securities.

Securities are classified as Level 2 if quoted prices for identical securities are not available, and fair value is determined using pricing models (either by a third-party pricing service or internally) or quoted prices of similar securities. These instruments include municipal bonds, bonds backed by the U.S. government, corporate bonds, agency residential and CMBS, securities issued by the U.S. Treasury, money markets, and certain agency and corporate CMOs. Inputs to the pricing models include standard inputs (i.e. yields, benchmark

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securities, bids, and offers), actual trade data (i.e. spreads, credit ratings, and interest rates) for comparable assets, spread tables, matrices, high-grade scales, and option-adjusted spreads.

Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. To determine fair value in such cases, depending on the complexity of the valuations required, we use internal models based on certain assumptions or a third-party valuation service. At March 31, 2018, our Level 3 instruments consist of debt securities. Our Corporate Strategy group is responsible for reviewing the valuation model and determining the fair value of these investments on a quarterly basis. The securities are valued using a cash flow analysis of the associated private company issuers. The valuations of the securities are negatively affected by projected net losses of the associated private companies and positively affected by projected net gains.

The valuations provided by the third-party pricing service are based on observable market inputs, which include benchmark yields, reported trades, issuer spreads, benchmark securities, bids, offers, and reference data obtained from market research publications. Inputs used by the third-party pricing service in valuing CMOs and other mortgage-backed securities also include new issue data, monthly payment information, whole loan collateral performance, and “To Be Announced” prices. In valuations of securities issued by state and political subdivisions, inputs used by the third-party pricing service also include material event notices.

On a monthly basis, we validate the pricing methodologies utilized by our third-party pricing service to ensure that the fair value determination is consistent with the applicable accounting guidance and that our assets are properly classified in the fair value hierarchy. To perform this validation, we:

- review documentation received from our third-party pricing service regarding the inputs used in their valuations and determine a level assessment for each category of securities;
- substantiate actual inputs used for a sample of securities by comparing the actual inputs used by our third-party pricing service to comparable inputs for similar securities; and
- substantiate the fair values determined for a sample of securities by comparing the fair values provided by our third-party pricing service to prices from other independent sources for the same and similar securities. We analyze variances and conduct additional research with our third-party pricing service and take appropriate steps based on our findings.

Principal investments. Principal investments consist of investments in equity and debt instruments made by our principal investing entities. They include direct investments (investments made in a particular company) and indirect investments (investments made through funds that include other investors). Our principal investing entities are accounted for as investment companies in accordance with the applicable accounting guidance, whereby each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period’s earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (individuals from one of the independent investment managers who oversee these instruments), accounting staff, and the Investment Committee (individual employees and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

Our direct investments include investments in debt and equity instruments of private companies. In most cases, quoted market prices are not available for our direct investments, and we must perform valuations using other methods. These direct investment valuations are an in-depth analysis of the condition of each investment and are based on the unique facts and circumstances related to each individual investment. There is a certain amount of subjectivity surrounding the valuation of these investments due to the combination of quantitative and qualitative factors that are used in the valuation models. Therefore, these direct investments are classified as Level 3 assets.

Our indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect

investments are valued using a methodology that is consistent with accounting guidance allowing us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed). Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. On February 14, 2017, Key's application for an extension to comply with this rule for illiquid funds was approved. Key will retain certain indirect investments until the earlier of the date on which the investment is conformed or is expected to mature, but no later than July 21, 2022; as of March 31, 2018, we have not committed to a plan to sell these investments, therefore, these investments continue to be valued using the net asset value per share methodology.

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The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at March 31, 2018, as well as financial support provided for the three months ended March 31, 2018, and March 31, 2017.

in millions	March 31, 2018		Financial support provided Three months ended March 31,		
	Fair Value	Unfunded Commitments	2018 Funded Commitments	2017 Funded Commitments	Funded Other
INVESTMENT TYPE					
Direct investments ^(a)	\$ 12	—	—	—	—
Indirect investments ^(b) (measured at NAV)	114	\$ 29	—	\$ 1	—
Total	\$ 126	\$ 29	—	\$ 1	—

Our direct investments consist of equity and debt investments directly in independent business enterprises.

Operations of the business enterprises are handled by management of the portfolio company. The purpose of (a) funding these enterprises is to provide financial support for business development and acquisition strategies. We infuse equity capital based on an initial contractual cash contribution and later from additional requests on behalf of the companies' management.

Our indirect investments consist of buyout funds, venture capital funds, and fund of funds. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds typically can be sold only with the approval of the fund's (b) general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to six years. The purpose of funding our capital commitments to these investments is to allow the funds to make additional follow-on investments and pay fund expenses until the fund dissolves. We, and all other investors in the fund, are obligated to fund the full amount of our respective capital commitments to the fund based on our and their respective ownership percentages, as noted in the applicable Limited Partnership Agreement.

Other Equity Investments. Our other equity investments are direct investments in equity instruments of private companies. Quoted market prices are not available for these investments and we must perform valuations using other methods in a similar manner to our direct principal investments. There is a certain amount of subjectivity surrounding the valuation of these investments due to the combination of quantitative and qualitative factors that are used in the valuation models. Accordingly, these investments are classified as Level 3 assets.

Loans Held for Sale. As of August 1, 2016, we account for our residential mortgage loans held for sale at fair value on a recurring basis. The election of the fair value option aligns the accounting for the residential mortgages held for sale with the related forward mortgage loan sale commitments.

Residential mortgage loans are valued based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. The prices are adjusted as necessary to include the embedded servicing value in the loans and to take into consideration the specific characteristics of certain loans that are priced based on the pricing of similar loans. These adjustments represent unobservable inputs to the valuation, but are not considered significant given the relative insensitivity of the fair value of the loans when changes are made to these inputs. Accordingly, the majority of residential mortgage loans held for sale are classified as Level 2. Our residential mortgage activity also includes temporarily unsalable residential mortgage loans that are included in "Loans, net of unearned income" and loans with salability issues included in "Loans held for sale" on the balance sheet. These loans have an origination defect that makes them temporarily unable to be sold into the performing loan sales market. Because transaction details regarding sales of this type of loan are often unavailable, unobservable bid information from brokers and investors is heavily

relied upon. Accordingly, based on the significance of unobservable inputs, these loans are classified as Level 3.

Derivatives. Exchange-traded derivatives are valued using quoted prices and, therefore, are classified as Level 1 instruments. However, only a few types of derivatives are exchange-traded. The majority of our derivative positions are valued using internally developed models, based on market convention, that use observable market inputs, such as interest rate curves, LIBOR and Overnight Index Swap discount rates and curves, index pricing curves, foreign currency curves, and volatility surfaces (a three-dimensional graph of implied volatility against strike price and maturity), as well as current prices for mortgage securities and investor supplied prices. These derivative contracts, which are classified as Level 2 instruments, include interest rate swaps, certain options, cross-currency swaps, credit default swaps, and forward mortgage loan sale commitments.

We have several customized derivative instruments and risk participations that are classified as Level 3 instruments. These derivative positions are priced monthly by our MRM group using a model acquired from a third party that employs a credit valuation adjustment methodology. The model utilizes inputs consisting of available market data, including bond spreads and asset values, as well as unobservable, internally derived assumptions, such as loss probabilities and internal risk ratings of customers. Swap details with the customer and our related participation percentage, if applicable, are obtained from our derivatives accounting system. Applicable customer rating information is obtained from the relevant loan system and represents an unobservable input to this valuation process. In summary, the fair value represents an estimate of the amount that the risk participation counterparty

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would need to pay/receive as of the measurement date based on the probability of customer default on the swap transaction and the fair value of the underlying customer swap. Therefore, a higher loss probability and a lower credit rating would negatively affect the fair value of the risk participations and a lower loss probability and higher credit rating would positively affect the fair value of the risk participations.

We use interest rate lock commitments for our residential mortgage business. These instruments are accounted for as derivatives and valued using models containing unobservable significant inputs. For valuation purposes, the loan amount associated with each interest rate lock commitment is adjusted by its modeled pull through (an unobservable input) defined as the percentage of loans that will close prior to the expiration of the rate lock commitment, as adjusted for approved changes to the terms. Based on the significance of unobservable inputs, these instruments are classified as Level 3.

Market convention implies a credit rating of “AA” equivalent in the pricing of derivative contracts, which assumes that all counterparties have the same creditworthiness. To reflect the actual exposure on our derivative contracts related to both counterparty and our own creditworthiness, we record a fair value adjustment in the form of a credit valuation adjustment. The credit component is determined by individual counterparty based on the probability of default and considers master netting and collateral agreements. The credit valuation adjustment is classified as Level 3. Our MRM group is responsible for the valuation policies and procedures related to this credit valuation adjustment. A weekly reconciliation process is performed to ensure that all applicable derivative positions are covered in the calculation, which includes transmitting customer exposures and reserve reports to trading management, derivative traders and marketers, derivatives middle office, and accounting personnel. On a quarterly basis, MRM prepares the credit valuation adjustment calculation, which includes a detailed reserve comparison with the previous quarter, an analysis for change in reserve, and a reserve forecast to ensure that the credit valuation adjustment recorded at period end is sufficient.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at March 31, 2018, and December 31, 2017.

March 31, 2018 in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations	—	\$ 500	—	\$ 500
States and political subdivisions	—	81	—	81
Other mortgage-backed securities	—	118	—	118
Other securities	—	59	—	59
Total trading account securities	—	758	—	758
Commercial loans	—	11	—	11
Total trading account assets	—	769	—	769
Securities available for sale:				
U.S. Treasury, agencies and corporations	—	146	—	146
States and political subdivisions	—	9	—	9
Agency residential collateralized mortgage obligations	—	14,566	—	14,566
Agency residential mortgage-backed securities	—	1,341	—	1,341
Agency commercial mortgage-backed securities	—	1,806	—	1,806
Other securities	—	—	\$ 20	20
Total securities available for sale	—	17,868	20	17,888
Other investments:				
Principal investments:				
Direct	—	—	12	12
Indirect (measured at NAV) ^(a)	—	—	—	114
Total principal investments	—	—	12	126
Equity investments:				
Direct	—	—	7	7
Direct (measured at NAV) ^(a)	—	—	—	1
Total equity investments	—	—	7	8
Total other investments	—	—	19	134
Loans, net of unearned income	—	—	2	2
Loans held for sale	—	46	1	47
Derivative assets:				
Interest rate	—	361	4	365
Foreign exchange	\$ 82	40	—	122
Commodity	—	345	—	345
Credit	—	—	—	—
Other	—	3	3	6
Derivative assets	82	749	7	838
Netting adjustments ^(b)	—	—	—	(207)
Total derivative assets	82	749	7	631
Accrued income and other assets	—	—	—	—
Total assets on a recurring basis at fair value	\$ 82	\$ 19,432	\$ 49	\$ 19,471
LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	\$ 92	\$ 541	—	\$ 633

Derivative liabilities:				
Interest rate	—	388	—	388
Foreign exchange	78	37	—	115
Commodity	—	334	—	334
Credit	—	3	—	3
Other	—	18	—	18
Derivative liabilities	78	780	—	858
Netting adjustments ^(b)	—	—	—	(483)
Total derivative liabilities	78	780	—	375
Accrued expense and other liabilities	—	—	—	—
Total liabilities on a recurring basis at fair value	\$ 170	\$ 1,321	—	\$ 1,008

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

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December 31, 2017 in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations	—	\$615	—	\$615
States and political subdivisions	—	37	—	37
Other mortgage-backed securities	—	104	—	104
Other securities	—	65	—	65
Total trading account securities	—	821	—	821
Commercial loans	—	15	—	15
Total trading account assets	—	836	—	836
Securities available for sale:				
U.S. Treasury, agencies and corporations	—	157	—	157
States and political subdivisions	—	9	—	9
Agency residential collateralized mortgage obligations	—	14,660	—	14,660
Agency residential mortgage-backed securities	—	1,439	—	1,439
Agency commercial mortgage-backed securities	—	1,854	—	1,854
Other securities	—	—	\$ 20	20
Total securities available for sale	—	18,119	20	18,139
Other investments:				
Principal investments:				
Direct	—	—	13	13
Indirect (measured at NAV) ^(a)	—	—	—	124
Total principal investments	—	—	13	137
Equity investments:				
Direct	—	4	3	7
Total equity investments	—	4	3	7
Total other investments	—	4	16	144
Loans, net of unearned income	—	—	2	2
Loans held for sale	—	70	1	71
Derivative assets:				
Interest rate	—	713	9	722
Foreign exchange	\$ 100	30	—	130
Commodity	—	255	—	255
Credit	—	—	1	1
Other	—	1	3	4
Derivative assets	100	999	13	1,112
Netting adjustments ^(b)	—	—	—	(443)
Total derivative assets	100	999	13	669
Accrued income and other assets	—	—	—	—
Total assets on a recurring basis at fair value	\$ 100	\$20,028	\$ 52	\$19,861
LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	\$ 72	\$562	—	\$634
Derivative liabilities:				
Interest rate	—	520	—	520
Foreign exchange	98	26	—	124

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Commodity	—	246	—	246
Credit	—	4	—	4
Other	—	13	—	13
Derivative liabilities	98	809	—	907
Netting adjustments ^(b)	—	—	—	(616)
Total derivative liabilities	98	809	—	291
Accrued expense and other liabilities	—	—	—	—
Total liabilities on a recurring basis at fair value	\$ 170	\$1,371	—	\$925

(a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

(b) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

Changes in Level 3 Fair Value Measurements

The following table shows the components of the change in the fair values of our Level 3 financial instruments for the three months ended March 31, 2018, and March 31, 2017. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table, therefore, the gains or losses shown do not include the impact of our risk management activities.

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in millions	Gains		Purchases	Sales	Settlements	Transfers to Other	Transfers into Level 3 (a)	Transfers out of Level 3 (a)	End of Period Balance	Unrealized Gains (Losses) Included in Earnings
	Beginning of Period Balance	(Losses) Included in Other Comprehensive Income									Gains (Losses) Included in Earnings
Three months ended March 31, 2018										
Securities available for sale										
Other securities	\$ 20	\$ —	—	—	—	—	—	—	\$ 20	—
Other investments										
Principal investments										
Direct	13	—	\$ (1) ^(b)	—	—	—	—	—	12	\$ (1) ^(b)
Equity investments										
Direct	3	—	—	—	—	—	\$ 4	—	7	—
Loans held for sale	1	—	—	—	—	—	—	—	1	—
Loans held for investment	2	—	—	—	—	—	—	—	2	—
Derivative instruments ^(c)										
Interest rate	9	—	(1) ^(d)	—	—	—	1 ^(e)	\$ (5) ^(e)	4	—
Credit	1	—	(5) ^(d)	—	—	\$ 4	—	—	—	—
Other ^(f)	3	—	—	—	—	—	—	—	3	—

in millions	Gains		Purchases	Sales	Settlements	Transfers to Other	Transfers into Level 3 (a)	Transfers out of Level 3 (a)	End of Period Balance	Unrealized Gains (Losses) Included in Earnings
	Beginning of Period Balance	(Losses) Included in Other Comprehensive Income									Gains (Losses) Included in Earnings
Three months ended March 31, 2017										
Securities available for sale										
Other securities	\$ 17	—	—	—	—	—	—	—	\$ 17	—
Other investments										
Principal investments										
Direct	27	\$ —	—\$ (2) ^(b)	—	\$ (4)	—	—	—	21	\$ (6) ^(b)
Derivative instruments ^(c)										
Interest rate	7	—	—	—	—	—	\$ 1 ^(e)	\$ (3) ^(e)	5	—
Credit	1	—	(3) ^(d)	—	—	\$ 3	—	—	1	—
Other ^(g)	2	—	—	—	—	\$ 2	—	—	4	—

(a) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.

(b) Realized and unrealized gains and losses on principal investments are reported in “other income” on the income statement.

(c) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.

(d) Realized and unrealized gains and losses on derivative instruments are reported in “corporate services income” and “other income” on the income statement.

(e) Certain derivatives previously classified as Level 2 were transferred to Level 3 because Level 3 unobservable inputs became significant. Certain derivatives previously classified as Level 3 were transferred to Level 2 because Level 3 unobservable inputs became less significant.

(f) Amounts represent Level 3 interest rate lock commitments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally result from the application of accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment. There were no liabilities measured at fair value on a nonrecurring basis at March 31, 2018, and December 31, 2017. The following table presents our assets measured at fair value on a nonrecurring basis at March 31, 2018, and December 31, 2017:

in millions	March 31, 2018			December 31, 2017		
	Level 2	Level 3	Total	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS						
Impaired loans	\$ 3	—	\$ 3	—	\$ 9	\$ 9
Accrued income and other assets	—	\$ 7	7	\$ 5	133	^(a) 138
Total assets on a nonrecurring basis at fair value	\$ 3	\$ 7	\$ 10	\$ 5	\$ 142	\$ 147

At December 31, 2017, we recorded \$31 million of impairment related to \$119 million of LIHTC and Historic Tax Credit investments impacted by the enactment of the TCJ Act. Refer to the “LIHTC and Historic Tax Credit Investments” section below for a description of the valuation technique and inputs applied for this fair value measurement.

Impaired loans. Loans are evaluated for impairment on a quarterly basis. Loans included in the previous quarter’s review are re-evaluated, and if their values have changed materially, the underlying information (loan balance and in most cases, collateral value) is compared. Material differences are evaluated for reasonableness, and the relationship managers and their senior managers consider these differences and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis based on current borrower developments, market conditions, and collateral values. The following two internal methods are used to value impaired loans:

• Cash flow analysis considers internally developed inputs, such as discount rates, default rates, costs of foreclosure, and changes in collateral values.

• The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations, and assessments provided by third-party appraisers. We perform or reaffirm

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appraisals of collateral-dependent impaired loans at least annually. Appraisals may occur more frequently if the most recent appraisal does not accurately reflect the current market, if the debtor is seriously delinquent or chronically past due, or there has been a material deterioration in the performance of the project or condition of the property. Adjustments to outdated appraisals that result in an appraisal value less than the carrying amount of a collateral-dependent impaired loan are reflected in the ALLL.

We adjust the carrying amount of our impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows, the fair value of the underlying collateral, or the loan's observable market price. Impaired loans with a specifically allocated allowance based on a cash flow analysis or the value of the underlying collateral are classified as Level 3 assets. Impaired loans with a specifically allocated allowance based on an observable market price that reflects recent sale transactions for similar loans and collateral are classified as Level 2 assets.

Impairment valuations are back-tested each quarter, based on a look-back of actual incurred losses on closed deals previously evaluated for impairment. The overall percent variance of actual net loan charge-offs on closed deals compared to the specific allocations on such deals is considered in determining each quarter's specific allocations.

The evaluations for impairment are prepared by the responsible relationship managers in our Asset Recovery Group and are reviewed and approved by the Asset Recovery Group Executive. The Asset Recovery Group is part of the Risk Management Group and reports to our Chief Credit Officer. These evaluations are performed in conjunction with the quarterly ALLL process.

Commercial loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming commercial loans, we determine any adjustments necessary to record the portfolios at the lower of cost or fair value in accordance with GAAP. Our analysis concluded that there were no commercial loans held for sale adjusted to fair value at March 31, 2018, and December 31, 2017.

Direct financing leases and operating lease assets held for sale. Our KEF Accounting and Capital Markets groups are responsible for the valuation policies and procedures related to these assets. The Managing Director of the KEF Capital Markets group reports to the President of the KEF line of business. A weekly report that lists all equipment finance deals booked in the warehouse portfolio is distributed to both groups. On a quarterly basis, the KEF Accounting group prepares a detailed held-for-sale roll-forward schedule that is reconciled to the general ledger and the above-mentioned weekly report. KEF management uses the held-for-sale roll-forward schedule to determine whether an impairment adjustment is necessary in accordance with lower of cost or fair value guidelines.

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as on our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. KEF has master sale and assignment agreements with numerous institutional investors. Historically, multiple quotes are obtained, with the most reasonable formal quotes retained. These nonbinding quotes generally lead to a sale to one of the parties who provided the quote. Leases for which we receive a current nonbinding bid, and for which the sale is considered probable, may be classified as Level 2. The validity of these quotes is supported by historical and continued dealings with these institutions that have fulfilled the nonbinding quote in the past. In a distressed market where market data were not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. KEF Accounting calculates an estimated fair value buy rate based on the credit premium inherent in the relevant bond index and the appropriate swap rate on

the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

Other assets. OREO and other repossessed properties are valued based on inputs such as appraisals and third-party price opinions, less estimated selling costs. Generally, we classify these assets as Level 3, but OREO and other repossessed properties for which we receive binding purchase agreements are classified as Level 2. Returned lease inventory is valued based on market data for similar assets and is classified as Level 2. Assets that are acquired through, or in lieu of, loan foreclosures are recorded initially as held for sale at fair value less estimated selling costs at the date of foreclosure. After foreclosure, valuations are updated periodically, and current market conditions may require the assets to be marked down further to a new cost basis.

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Commercial Real Estate Valuation Process: When a loan is reclassified from loan status to OREO because we took possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third-party sources, our OREO group also writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, where the accepted price is lower than the current balance of the particular OREO asset. The fair value of OREO property is re-evaluated every 90 days, and the OREO asset is adjusted as necessary.

Residential Real Estate Valuation Process: The Asset Management team within our Risk Operations group is responsible for valuation policies and procedures of these loans. The current vendor partner provides monthly reporting of all broker price opinion evaluations, appraisals, and the monthly market plans. Market plans are reviewed monthly, and valuations are reviewed and tested monthly to ensure proper pricing has been established and guidelines are being met. Risk Operations Compliance validates and provides periodic testing of the valuation process. The Asset Management team reviews changes in fair value measurements. Third-party broker price opinions are reviewed every 180 days, and the fair value is written down based on changes to the valuation. External factors are documented and monitored as appropriate.

LIHTC and Historic Tax Credit Investments. LIHTC and Historic Tax Credit (HTC) operating partnerships are subject to quarterly impairment testing. This evaluation involves measuring the present value of future tax benefits and comparing that value against the current carrying value of the investment. Expected future tax benefit schedules are provided by the partnerships' general partners on a quarterly basis. These future benefits are discounted to their present value using discounted cash flow modeling that incorporates an appropriate risk premium. LIHTC and HTC investments are impaired when it is more likely than not that the carrying amount of the investment will not be realized. A primary driver of impairment in the fourth quarter of 2017 was the enactment of the TCJ Act, which reduced future depreciation tax benefits expected to be realized by certain LIHTC and HTC investments.

Other Equity Investments. We have other investments in equity securities that do not have readily determinable fair values and do not qualify for the practical expedient to measure the investment using a net asset value per share. We have elected to measure these securities at cost less impairment plus or minus adjustments due to observable orderly transactions. At each reporting period, we assess if these investments continue to qualify for this measurement alternative. At March 31, 2018, the carrying amount of equity investments recorded under this method was \$95 million. No impairment was recorded for the three months ended March 31, 2018. Impairment is recorded when there is evidence that the expected fair value of the investment has declined to below the recorded cost.

Quantitative Information about Level 3 Fair Value Measurements

The range and weighted average of the significant unobservable inputs used to fair value our material Level 3 recurring and nonrecurring assets at March 31, 2018, and December 31, 2017, along with the valuation techniques used, are shown in the following table:

March 31, 2018 dollars in millions	Fair Value of Level 3 Assets	Valuation Technique	Significant Unobservable Input	Weighted Average
Recurring				
Other investments — principal investments — direct:	\$ 12	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	6.00
Equity instruments of private companies			EBITDA multiple	6.00

Nonrecurring Impaired loans	—	Fair value of underlying collateral	Discount	N/A
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December 31, 2017	Fair Value of Level 3 Assets	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
dollars in millions				
Recurring				
Other investments — principal investments — direct:	\$ 13	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	N/A (6.00)
Equity instruments of private companies			EBITDA multiple	N/A (6.00)
Nonrecurring				
Impaired loans	9	Fair value of underlying collateral	Discount	00.00 - 50.00% (23.00%)

Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at March 31, 2018, and December 31, 2017, are shown in the following tables. Assets and liabilities are further arranged by measurement category.

in millions	March 31, 2018					Netting Adjustment	Total
	Carrying Amount	Level 2	Level 3	Measured at NAV	Level 1		
ASSETS (by measurement category)							
Fair value - net income							
Trading account assets ^(b)	\$ 769	—	\$ 769	—	—	—	\$ 769
Other investments ^(b)	715	—	—	\$ 600	\$ 115	—	715
Loans, net of unearned income ^(d)	2	—	—	2	—	—	2
Loans held for sale ^(b)	47	—	46	1	—	—	47
Derivative assets - trading ^(b)	603	\$ 81	710	7	—	\$ (195) ^(f)	603
Fair value - OCI							
Securities available for sale ^(b)	17,888	—	17,868	\$ 20	—	—	17,888
Derivative assets - hedging ^(b)	28	1	39	—	—	(12) ^(f)	28
Amortized cost							
Held-to-maturity securities ^(c)	12,189	—	11,729	—	—	—	11,729
Loans, net of unearned income ^(d)	87,206	—	—	85,166	—	—	85,166
Loans held for sale ^(b)	1,620	—	—	1,620	—	—	1,620
Other							
Cash and short-term investments ^(a)	2,287	2,287	—	—	—	—	2,287
LIABILITIES (by measurement category)							
Fair value - net income							
Derivative liabilities - trading ^(b)	\$ 371	\$ 74	\$ 778	—	—	\$ (481) ^(f)	\$ 371
Fair value - OCI							
Derivative liabilities - hedging ^(b)	4	4	2	—	—	(2) ^(f)	4
Amortized cost							
Time deposits ^(e)	12,223	—	12,285	—	—	—	12,285

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Short-term borrowings ^(a)	1,749	\$921,657	—	—	—	1,749
Long-term debt ^(e)	13,749	92,176	90	—	—	13,866
Other						
Deposits with no stated maturity ^(a)	92,528	—	92,528	—	—	93,588

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in millions	December 31, 2017					Total
	Carrying Amount	Level 2	Level 3	Measured at NAV	Netting Adjustment	
ASSETS (by measurement category)						
Fair value - net income						
Trading account assets ^(b)	\$ 836	\$ 836	—	—	—	\$ 836
Other investments ^(b)	726	4	\$ 598	\$ 124	—	726
Loans, net of unearned income ^(d)	2	—	2	—	—	2
Loans held for sale ^(b)	71	70	1	—	—	71
Derivative assets - trading ^(b)	681	\$ 999	18	—	\$ (349)	681 ^(f)
Fair value - OCI						
Securities available for sale ^(b)	18,139	18,119	20	—	—	18,139
Derivative assets - hedging ^(b)	(12)	181	—	—	(94)	(12) ^(f)
Amortized cost						
Held-to-maturity securities ^(c)	11,830	11,565	—	—	—	11,565
Loans, net of unearned income ^(d)	85,526	—	84,003	—	—	84,003
Loans held for sale ^(b)	1,036	—	1,036	—	—	1,036
Other						
Cash and short-term investments ^(a)	5,118	5,118	—	—	—	5,118
LIABILITIES (by measurement category)						
Fair value - net income						
Derivative liabilities - trading ^(b)	\$ 289	\$ 94	\$ 763	—	—	\$ (568) ^(f)
Fair value - OCI						
Derivative liabilities - hedging ^(b)	2	4	46	—	—	(48) ^(f)
Amortized cost						
Time deposits ^(e)	11,647	11,750	—	—	—	11,750
Short-term borrowings ^(a)	1,011	72	939	—	—	1,011
Long-term debt ^(e)	14,333	13,407	926	—	—	14,626
Other						
Deposits with no stated maturity ^(a)	93,588	93,588	—	—	—	93,588

Valuation Methods and Assumptions

(a) Fair value equals or approximates carrying amount. The fair value of deposits with no stated maturity does not take into consideration the value ascribed to core deposit intangibles.

Information pertaining to our methodology for measuring the fair values of these assets and liabilities is included in the sections entitled “Qualitative Disclosures of Valuation Techniques” and “Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis” in this Note. Investments accounted for under the cost method (or cost less impairment adjusted for observable price changes for certain equity investments) are classified as Level 3 assets.

(b) These investments are not actively traded in an open market as sales for these types of investments are rare. The carrying amount of the investments carried at cost are adjusted for declines in value if they are considered to be other-than-temporary (or due to observable orderly transactions of the same issuer for equity investments eligible for the cost less impairment measurement alternative). These adjustments are included in “other income” on the income statement.

Fair values of held-to-maturity securities are determined by using models that are based on security-specific details, as well as relevant industry and economic factors. The most significant of these inputs are quoted market prices,

(c) interest rate spreads on relevant benchmark securities, and certain prepayment assumptions. We review the valuations derived from the models to ensure that they are reasonable and consistent with the values placed on similar securities traded in the secondary markets.

(d)

- The fair value of loans is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital. In addition, an incremental liquidity discount is applied to certain loans, using historical sales of loans during periods of similar economic conditions as a benchmark. The fair value of loans includes lease financing receivables at their aggregate carrying amount, which is equivalent to their fair value.
- (e) Fair values of time deposits and long-term debt are based on discounted cash flows utilizing relevant market inputs. Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The net basis takes into account the
- (f) impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

We determine fair value based on assumptions pertaining to the factors that a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2017 and the first quarter of 2018, the fair values of our loan portfolios generally remained stable, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change. Also, because the applicable accounting guidance for financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table above do not, by themselves, represent the underlying value of our company as a whole.

Education lending business. The discontinued education lending business consists of loans in portfolio recorded at carrying value with appropriate valuation reserves, and loans in portfolio recorded at fair value. All of these loans were excluded from the table above as follows:

Loans at carrying value, net of allowance, of \$1.2 billion (\$1.1 billion at fair value) at March 31, 2018, and \$1.3 billion (\$1.1 billion at fair value) at December 31, 2017;

Portfolio loans at fair value of \$2 million at March 31, 2018, and \$2 million at December 31, 2017.

These loans and securities are classified as Level 3 because we rely on unobservable inputs when determining fair value since observable market data is not available.

Short-term financial instruments. For financial instruments with a remaining average life to maturity of less than six months, carrying amounts were used as an approximation of fair values.

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6. Securities

The amortized cost, unrealized gains and losses, and approximate fair value of our securities available for sale and held-to-maturity securities are presented in the following tables. Gross unrealized gains and losses represent the difference between the amortized cost and the fair value of securities on the balance sheet as of the dates indicated. Accordingly, the amount of these gains and losses may change in the future as market conditions change.

March 31, 2018				
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury, agencies, and corporations	\$151	—	\$ 5	\$146
States and political subdivisions	9	—	—	9
Agency residential collateralized mortgage obligations	15,037	\$ 7	478	14,566
Agency residential mortgage-backed securities	1,376	2	37	1,341
Agency commercial mortgage-backed securities	1,902	—	96	1,806
Other securities	17	3	—	20
Total securities available for sale	\$18,492	\$ 12	\$ 616	\$17,888
HELD-TO-MATURITY SECURITIES				
Agency residential collateralized mortgage obligations	\$7,952	1	\$ 331	\$7,622
Agency residential mortgage-backed securities	554	\$ —	16	538
Agency commercial mortgage-backed securities	3,668	—	114	3,554
Other securities	15	—	—	15
Total held-to-maturity securities	\$12,189	\$ 1	\$ 461	\$11,729
December 31, 2017				
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
U.S. Treasury, agencies, and corporations	\$159	—	\$ 2	\$157
States and political subdivisions	9	—	—	9
Agency residential collateralized mortgage obligations	14,985	\$ 10	335	14,660
Agency residential mortgage-backed securities	1,456	3	20	1,439
Agency commercial mortgage-backed securities	1,920	—	66	1,854
Other securities	17	3	—	20
Total securities available for sale	\$18,546	\$ 16	\$ 423	\$18,139
HELD-TO-MATURITY SECURITIES				
Agency residential collateralized mortgage obligations	\$8,055	\$ —	\$ 224	\$7,831
Agency residential mortgage-backed securities	574	1	4	571
Agency commercial mortgage-backed securities	3,186	6	44	3,148
Other securities	15	—	—	15
Total held-to-maturity securities	\$11,830	\$ 7	\$ 272	\$11,565

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The following table summarizes our securities that were in an unrealized loss position as of March 31, 2018, and December 31, 2017.

in millions	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2018						
Securities available for sale:						
U.S Treasury, agencies, and corporations	\$40	\$ 1	\$106	\$ 4	\$146	\$ 5
Agency residential collateralized mortgage obligations	5,974	125	7,025	353	12,999	478
Agency residential mortgage-backed securities	618	14	667	23	1,285	37
Agency commercial mortgage-backed securities	194	7	1,611	89	1,805	96
Held-to-maturity securities:						
Agency residential collateralized mortgage obligations	2,137	56	5,319	275	7,456	331
Agency residential mortgage-backed securities	345	9	193	7	538	16
Agency commercial mortgage-backed securities	3,071	71	484	43	3,555	114
Other securities ^(a)	2	—	—	—	2	—
Total temporarily impaired securities	\$12,381	\$ 283	\$15,405	\$ 794	\$27,786	\$ 1,077
December 31, 2017						
Securities available for sale:						
U.S. Treasury, agencies, and corporations	\$41	\$ —	116	2	\$157	\$ 2
Agency residential collateralized mortgage obligations	6,153	74	\$7,270	\$ 261	13,423	335
Agency residential mortgage-backed securities	666	7	702	13	1,368	20
Agency commercial mortgage-backed securities	205	4	1,649	62	1,854	66
Held-to-maturity securities:						
Agency residential collateralized mortgage obligations	2,201	27	5,599	197	7,800	224
Agency residential mortgage-backed securities	252	1	206	3	458	4
Agency commercial mortgage-backed securities	1,470	12	495	32	1,965	44
Other securities ^(a)	3	—	4	—	7	—
Total temporarily impaired securities	\$10,991	\$ 125	\$16,041	\$ 570	\$27,032	\$ 695

^(a) Gross unrealized losses totaled less than \$1 million for other securities held-to maturity at March 31, 2018 and December 31, 2017.

At March 31, 2018, we had \$478 million of gross unrealized losses related to 457 fixed-rate agency residential CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4.54 years at March 31, 2018. At March 31, 2018, we also had \$37 million of gross unrealized losses related to 262 agency residential mortgage-backed securities positions and \$96 million of gross unrealized losses related to 14 agency commercial mortgage backed securities positions with weighted-average maturities of 3.92 years and 4.12 years, respectively. Because these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. These unrealized losses are considered temporary since we expect to collect all contractually due amounts from these securities. Accordingly, these investments were reduced to their fair value through OCI, not through earnings.

We regularly assess our securities portfolio for OTTI. The assessments are based on the nature of the securities, the underlying collateral, the financial condition of the issuer, the extent and duration of the loss, our intent related to the

individual securities, and the likelihood that we will have to sell securities prior to expected recovery. As shown in the following table, we did not have any impairment losses recognized in earnings for the three months ended March 31, 2018, and March 31, 2017.

Three months ended March 31, 2018

in millions

Balance at December 31, 2017	\$4
Impairment recognized in earnings	—
Balance at March 31, 2018	\$4

At March 31, 2018, securities available for sale and held-to-maturity securities totaling \$9.0 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

The following table shows our securities by remaining maturity. CMOs and other mortgage-backed securities available for sale portfolio and held-to-maturity portfolio are presented based on their expected average lives. The remaining securities, in both the available-for-sale and held-to-maturity portfolios, are presented based on their

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remaining contractual maturity. Actual maturities may differ from expected or contractual maturities since borrowers have the right to prepay obligations with or without prepayment penalties.

March 31, 2018 in millions	Securities Available for Sale		Held to Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 132	\$ 132	\$ 47	\$ 46
Due after one through five years	12,901	12,459	6,262	6,059
Due after five through ten years	5,446	5,284	5,620	5,388
Due after ten years	13	13	260	236
Total	\$ 18,492	\$ 17,888	\$ 12,189	\$ 11,729

7. Derivatives and Hedging Activities

We are a party to various derivative instruments, mainly through our subsidiary, KeyBank. The primary derivatives that we use are interest rate swaps, caps, floors, and futures; foreign exchange contracts; commodity derivatives; and credit derivatives. Generally, these instruments help us manage exposure to interest rate risk, mitigate the credit risk inherent in our loan portfolio, hedge against changes in foreign currency exchange rates, and meet client financing and hedging needs. As further discussed in this note:

• interest rate risk is the risk that the EVE or net interest income will be adversely affected by fluctuations in interest rates;

• credit risk is the risk of loss arising from an obligor's inability or failure to meet contractual payment or performance terms; and

• foreign exchange risk is the risk that an exchange rate will adversely affect the fair value of a financial instrument.

At March 31, 2018, after taking into account the effects of bilateral collateral and master netting agreements, we had \$28 million of derivative assets and \$4 million of derivative liabilities that relate to contracts entered into for hedging purposes. As of the same date, after taking into account the effects of bilateral collateral and master netting agreements and a reserve for potential future losses, we had derivative assets of \$603 million and derivative liabilities of \$371 million that were not designated as hedging instruments. These positions are primarily comprised of derivative contracts entered into for client accommodation purposes.

Additional information regarding our accounting policies for derivatives is provided in Note 1 ("Summary of Significant Accounting Policies") under the heading "Derivatives and Hedging" beginning on page 105 of our 2017 Form 10-K

Derivatives Designated in Hedge Relationships

Net interest income and the EVE change in response to changes in the mix of assets, liabilities, and off-balance sheet instruments and the associated interest rates tied to each instrument. In addition, differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities cause net interest income and the EVE to fluctuate. We utilize derivatives that have been designated as part of a hedge relationship in accordance with the applicable accounting guidance to manage net interest income and EVE to within our stated risk tolerances. The primary derivative instruments used to manage interest rate risk are interest rate swaps.

We designate certain “receive fixed/pay variable” interest rate swaps as fair value hedges. These contracts convert certain fixed-rate long-term debt into variable-rate obligations, thereby modifying our exposure to changes in interest rates. As a result, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts.

Similarly, we designate certain “receive fixed/pay variable” interest rate swaps as cash flow hedges. These contracts effectively convert certain floating-rate loans into fixed-rate loans to reduce the potential adverse effect of interest rate decreases on future interest income. Again, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts.

We also designate certain “pay fixed/receive variable” interest rate swaps as cash flow hedges. These swaps convert certain floating-rate debt into fixed-rate debt. We also use these swaps to manage the interest rate risk

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associated with anticipated sales of certain commercial real estate loans. The swaps protect against the possible short-term decline in the value of the loans that could result from changes in interest rates between the time they are originated and the time they are sold.

We use foreign currency forward transactions to hedge the foreign currency exposure of our net investment in various foreign equipment finance entities. These entities are denominated in a non-U.S. currency. These forward transactions are designated as net investment hedges to mitigate the exposure of measuring the net investment at the spot foreign exchange rate.

Derivatives Not Designated in Hedge Relationships

We may enter into interest rate swap contracts to manage economic risks, but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at March 31, 2018, was not significant.

Like other financial services institutions, we originate loans and extend credit, both of which expose us to credit risk. We actively manage our overall loan portfolio and the associated credit risk in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate portfolio credit risk. Purchasing credit protection through default swaps enables us to transfer to a third party a portion