

KEYCORP /NEW/  
Form 10-Q  
May 05, 2016  
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**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, 2016**  
**Commission File Number 001-11302**

**Exact name of registrant as specified in its charter:**

**Ohio**

**34-6542451**

|   |   |
|---|---|
| <b>State or other jurisdiction of<br/>incorporation or organization</b> | <b>I.R.S. Employer<br/>Identification Number:</b> |
| <b>127 Public Square, Cleveland, Ohio</b>                               | <b>44114-1306</b>                                 |
| <b>Address of principal executive offices:</b>                          | <b>Zip Code:</b>                                  |
| <b>(216) 689-3000</b>   |   |

**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 or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

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

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

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 | 842,372,999 Shares                |
| <b>Title of class</b>                      | <b>Outstanding at May 2, 2016</b> |

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## KEYCORP

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Throughout the Notes to Consolidated Financial Statements (Unaudited) and Management's Discussion & Analysis of Financial Condition & Results of Operations, we use certain acronyms and abbreviations as defined in Note 1 ( **Basis of Presentation and Accounting Policies** ) that begins on page 10.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Consolidated Balance Sheets**

| <i>in millions, except per share data</i>   | <b>March 31,<br/>2016<br/>(Unaudited)</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015<br/>(Unaudited)</b> |
|---|---|------------------------------|---|
| <b>ASSETS</b>   |   |                              |   |
| Cash and due from banks   | \$ 474                                    | \$ 607                       | \$ 506                                    |
| Short-term investments  | 5,436                                     | 2,707                        | 3,378                                     |
| Trading account assets  | 765                                       | 788                          | 789                                       |
| Securities available for sale   | 14,304                                    | 14,218                       | 13,120                                    |
| Held-to-maturity securities (fair value: \$5,031, \$4,848, and \$5,003)                                   | 5,003                                     | 4,897                        | 5,005                                     |
| Other investments   | 643                                       | 655                          | 730                                       |
| Loans, net of unearned income of \$623, \$646, and \$665  | 60,438                                    | 59,876                       | 57,953                                    |
| Less: Allowance for loan and lease losses   | 826                                       | 796                          | 794                                       |
| Net loans   | 59,612                                    | 59,080                       | 57,159                                    |
| Loans held for sale   | 684                                       | 639                          | 1,649                                     |
| Premises and equipment  | 750                                       | 779                          | 806                                       |
| Operating lease assets  | 362                                       | 340                          | 306                                       |
| Goodwill  | 1,060                                     | 1,060                        | 1,057                                     |
| Other intangible assets   | 57  | 65                           | 92  |
| Corporate-owned life insurance  | 3,557                                     | 3,541                        | 3,488                                     |
| Derivative assets   | 1,065                                     | 619                          | 731                                       |
| Accrued income and other assets   | 2,849                                     | 3,292                        | 3,142                                     |
| Discontinued assets (including \$3, \$4, and \$187 million of portfolio loans at fair value, see Note 11) | 1,781                                     | 1,846                        | 2,246                                     |
| Total assets  | \$ 98,402                                 | \$ 95,133                    | \$ 94,204                                 |
| <b>LIABILITIES</b>  |   |                              |   |
| Deposits in domestic offices:   |   |                              |   |
| NOW and money market deposit accounts   | \$ 38,946                                 | \$ 37,089                    | \$ 35,623                                 |
| Savings deposits  | 2,385                                     | 2,341                        | 2,413                                     |
| Certificates of deposit (\$100,000 or more)   | 3,095                                     | 2,392                        | 1,982                                     |
| Other time deposits   | 3,259                                     | 3,127                        | 3,182                                     |
| Total interest-bearing deposits   | 47,685                                    | 44,949                       | 43,200                                    |
| Noninterest-bearing deposits  | 25,697                                    | 26,097                       | 27,948                                    |
| Deposits in foreign office interest-bearing   |   |                              | 474                                       |
| Total deposits  | 73,382                                    | 71,046                       | 71,622                                    |

|   |                  |                  |                  |
|---|------------------|------------------|------------------|
| Federal funds purchased and securities sold under repurchase agreements   | 374              | 372              | 517              |
| Bank notes and other short-term borrowings  | 615              | 533              | 608              |
| Derivative liabilities  | 790              | 632              | 825              |
| Accrued expense and other liabilities   | 1,410            | 1,605            | 1,308            |
| Long-term debt  | 10,760           | 10,186           | 8,711            |
| <b>Total liabilities</b>  | <b>87,331</b>    | <b>84,374</b>    | <b>83,591</b>    |
| <b>EQUITY</b>   |                  |                  |                  |
| Preferred stock, \$1 par value, authorized 25,000,000 shares:   |                  |                  |                  |
| 7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, \$100 liquidation preference; authorized 7,475,000 shares; issued 2,900,234, 2,900,234, and 2,900,234 shares |                  |                  |                  |
|   | 290              | 290              | 290              |
| Common shares, \$1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905, and 1,016,969,905 shares  |                  |                  |                  |
|   | 1,017            | 1,017            | 1,017            |
| Capital surplus   | 3,818            | 3,922            | 3,910            |
| Retained earnings   | 9,042            | 8,922            | 8,445            |
| Treasury stock, at cost (174,680,274, 181,218,648, and 166,049,974 shares)  |                  |                  |                  |
|   | (2,888)          | (3,000)          | (2,780)          |
| Accumulated other comprehensive income (loss)   |                  |                  |                  |
|   | (213)            | (405)            | (279)            |
| Key shareholders equity   | 11,066           | 10,746           | 10,603           |
| Noncontrolling interests  | 5                | 13               | 10               |
| <b>Total equity</b>   | <b>11,071</b>    | <b>10,759</b>    | <b>10,613</b>    |
| <b>Total liabilities and equity</b>   | <b>\$ 98,402</b> | <b>\$ 95,133</b> | <b>\$ 94,204</b> |

See Notes to Consolidated Financial Statements (Unaudited).

**Table of Contents****Consolidated Statements of Income (Unaudited)**

| <i>dollars in millions, except per share amounts</i>         | <b>Three months ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2016</b>                         | <b>2015</b> |
| <b>INTEREST INCOME</b>                                       |                                     |             |
| Loans  | \$ 562                              | \$ 523      |
| Loans held for sale  | 8                                   | 7           |
| Securities available for sale                                | 75                                  | 70          |
| Held-to-maturity securities                                  | 24                                  | 24          |
| Trading account assets                                       | 7                                   | 5           |
| Short-term investments                                       | 4                                   | 2           |
| Other investments  | 3                                   | 5           |
| <b>Total interest income</b>                                 | <b>683</b>                          | <b>636</b>  |
| <b>INTEREST EXPENSE</b>                                      |                                     |             |
| Deposits   | 31                                  | 26          |
| Bank notes and other short-term borrowings                   | 2                                   | 2           |
| Long-term debt   | 46                                  | 37          |
| <b>Total interest expense</b>                                | <b>79</b>                           | <b>65</b>   |
| <b>NET INTEREST INCOME</b>                                   | <b>604</b>                          | <b>571</b>  |
| Provision for credit losses                                  | 89                                  | 35          |
| <b>Net interest income after provision for credit losses</b> | <b>515</b>                          | <b>536</b>  |
| <b>NONINTEREST INCOME</b>                                    |                                     |             |
| Trust and investment services income                         | 109                                 | 109         |
| Investment banking and debt placement fees                   | 71                                  | 68          |
| Service charges on deposit accounts                          | 65                                  | 61          |
| Operating lease income and other leasing gains               | 17                                  | 19          |
| Corporate services income                                    | 50                                  | 43          |
| Cards and payments income                                    | 46                                  | 42          |
| Corporate-owned life insurance income                        | 28                                  | 31          |
| Consumer mortgage income                                     | 2                                   | 3           |
| Mortgage servicing fees                                      | 12                                  | 13          |
| Net gains (losses) from principal investing                  |                                     | 29          |
| Other income <sup>(a)</sup>                                  | 31                                  | 19          |
| <b>Total noninterest income</b>                              | <b>431</b>                          | <b>437</b>  |
| <b>NONINTEREST EXPENSE</b>                                   |                                     |             |
| Personnel  | 404                                 | 389         |
| Net occupancy  | 61                                  | 65          |
| Computer processing  | 43                                  | 38          |
| Business services and professional fees                      | 41                                  | 33          |



|  |               |               |
|--|---------------|---------------|
| Equipment  | 21            | 22            |
| Operating lease expense  | 13            | 11            |
| Marketing  | 12            | 8             |
| FDIC assessment  | 9             | 8             |
| Intangible asset amortization  | 8             | 9             |
| OREO expense, net  | 1             | 2             |
| Other expense  | 90            | 84            |
| <b>Total noninterest expense</b>   | <b>703</b>    | <b>669</b>    |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>                              | <b>243</b>    | <b>304</b>    |
| Income taxes   | 56            | 74            |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>  | <b>187</b>    | <b>230</b>    |
| Income (loss) from discontinued operations, net of taxes of \$0 and \$3 (see Note 11)            | 1             | 5             |
| <b>NET INCOME (LOSS)</b>   | <b>188</b>    | <b>235</b>    |
| Less: Net income (loss) attributable to noncontrolling interests                                 |               | 2             |
| <b>NET INCOME (LOSS) ATTRIBUTABLE TO KEY</b>   | <b>\$ 188</b> | <b>\$ 233</b> |
| Income (loss) from continuing operations attributable to Key common shareholders                 | \$ 182        | \$ 222        |
| Net income (loss) attributable to Key common shareholders  | 183           | 227           |
| Per common share:  |               |               |
| Income (loss) from continuing operations attributable to Key common shareholders                 | \$ .22        | \$ .26        |
| Income (loss) from discontinued operations, net of taxes   |               | .01           |
| Net income (loss) attributable to Key common shareholders <sup>(b)</sup>                         | .22           | .27           |
| Per common share assuming dilution:  |               |               |
| Income (loss) from continuing operations attributable to Key common shareholders                 | \$ .22        | \$ .26        |
| Income (loss) from discontinued operations, net of taxes   |               | .01           |
| Net income (loss) attributable to Key common shareholders <sup>(b)</sup>                         | .22           | .26           |
| Cash dividends declared per common share   | \$ .075       | \$ .065       |
| Weighted-average common shares outstanding (000) <sup>(c)</sup>                                  | 827,381       | 848,580       |
| Effect of convertible preferred stock  |               |               |
| Effect of common share options and other stock awards <sup>(c)</sup>                             | 7,679         | 8,542         |
| Weighted-average common shares and potential common shares outstanding (000) <sup>(c), (d)</sup> | 835,060       | 857,122       |

- (a) For the three months ended March 31, 2016, and March 31, 2015, net securities gains (losses) totaled less than \$1 million. For the three months ended March 31, 2016, we did not have any impairment losses related to securities. For the three months ended March 31, 2015, impaired losses related to securities

totaled less than \$1 million.

- (b) EPS may not foot due to rounding.
- (c) For the three months ended March 31, 2016, weighted-average common shares outstanding, effect of common share options and other stock awards, and weighted-average common shares and potential common shares outstanding have been revised from our financial results reported on Form 8-K on April 21, 2016.
- (d) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

See Notes to Consolidated Financial Statements (Unaudited).

**Table of Contents****Consolidated Statements of Comprehensive Income (Unaudited)**

| <i>in millions</i>  | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| Net income (loss)   | \$ 188                              | \$ 235      |
| Other comprehensive income (loss), net of tax:  |                                     |             |
| Net unrealized gains (losses) on securities available for sale, net of income taxes of \$76 and \$33    | 128                                 | 55          |
| Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$34 and \$19 | 58                                  | 32          |
| Foreign currency translation adjustments, net of income taxes of \$3 and (\$8)                          | 5                                   | (13)        |
| Net pension and postretirement benefit costs, net of income taxes of \$4 and \$1                        | 1                                   | 3           |
| Total other comprehensive income (loss), net of tax   | 192                                 | 77          |
| Comprehensive income (loss)   | 380                                 | 312         |
| Less: Comprehensive income attributable to noncontrolling interests                                     |                                     | 2           |
| Comprehensive income (loss) attributable to Key   | \$ 380                              | \$ 310      |

See Notes to Consolidated Financial Statements (Unaudited).

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## Consolidated Statements of Changes in Equity (Unaudited)

|  | Key Shareholders Equity            |                                 |                    |                  |                    |                      | Accumulated<br>Other<br>Comprehensive<br>Income | Treasury<br>Stock,<br>at Cost | Noncontrolling<br>Interests |
|--|------------------------------------|---------------------------------|--------------------|------------------|--------------------|----------------------|---|-------------------------------|-----------------------------|
|  | Preferred<br>Shares<br>Outstanding | Common<br>Shares<br>Outstanding | Preferred<br>Stock | Common<br>Shares | Capital<br>Surplus | Retained<br>Earnings |   |                               |                             |
| <i>dollars in millions, except per share amounts</i>   | (000)                              | (000)                           |                    |                  |                    |                      |   |                               |                             |
| <b>BALANCE AT DECEMBER 31, 2014</b>  | 2,905                              | 859,403                         | \$ 291             | \$ 1,017         | \$ 3,986           | \$ 8,273             | \$(2,681)                                       | \$(356)                       | \$ 12                       |
| Net income (loss)  |                                    |                                 |                    |                  |                    | 233                  |   |                               | 2                           |
| Other comprehensive income (loss):   |                                    |                                 |                    |                  |                    |                      |   |                               |                             |
| Net unrealized gains (losses) on securities available for sale, net of income taxes of \$33    |                                    |                                 |                    |                  |                    |                      |   | 55                            |                             |
| Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$19 |                                    |                                 |                    |                  |                    |                      |   | 32                            |                             |
| Foreign currency translation adjustments, net of income taxes of (\$8)                         |                                    |                                 |                    |                  |                    |                      |   | (13)                          |                             |
| Net pension and postretirement benefit costs, net of income taxes of \$1                       |                                    |                                 |                    |                  |                    |                      |   | 3                             |                             |
| Deferred compensation  |                                    |                                 |                    |                  | 5                  |                      |   |                               |                             |
| Cash dividends declared on common shares (\$0.065 per share)                                   |                                    |                                 |                    |                  |                    | (55)                 |   |                               |                             |
| Cash dividends declared on Noncumulative Series A Preferred Stock (\$1.9375 per share)         |                                    |                                 |                    |                  |                    | (6)                  |   |                               |                             |
| Common shares repurchased  |                                    | (14,087)                        |                    |                  |                    |                      | (197)   |                               |                             |
| Series A Preferred Stock exchanged for common shares   | (5)                                | 33                              | (1)                |                  |                    |                      | 1   |                               |                             |
| Common shares reissued (returned) for stock options and other employee benefit plans           |                                    | 5,571                           |                    |                  |                    | (81)                 | 97  |                               |                             |
| Net contribution from (distribution to) noncontrolling interests                               |                                    |                                 |                    |                  |                    |                      |   |                               | (4)                         |
| <b>BALANCE AT MARCH 31, 2015</b>   | 2,900                              | 850,920                         | \$ 290             | \$ 1,017         | \$ 3,910           | \$ 8,445             | \$(2,780)                                       | \$(279)                       | \$ 10                       |
| <b>BALANCE AT DECEMBER 31, 2015</b>  | 2,900                              | 835,751                         | \$ 290             | \$ 1,017         | \$ 3,922           | \$ 8,922             | \$(3,000)                                       | \$(405)                       | \$ 13                       |
| Net income (loss)  |                                    |                                 |                    |                  |                    | 188                  |   |                               |                             |
| Other comprehensive income (loss):   |                                    |                                 |                    |                  |                    |                      |   |                               |                             |
| Net unrealized gains (losses) on securities available for sale, net of income taxes of \$76    |                                    |                                 |                    |                  |                    |                      |   | 128                           |                             |
| Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$34 |                                    |                                 |                    |                  |                    |                      |   | 58                            |                             |
| Foreign currency translation adjustments, net of income taxes of \$3                           |                                    |                                 |                    |                  |                    |                      |   | 5                             |                             |
|  |                                    |                                 |                    |                  |                    |                      |   | 1                             |                             |

|   |              |                |               |                 |                 |                 |                   |                 |             |      |
|---|--------------|----------------|---------------|-----------------|-----------------|-----------------|-------------------|-----------------|-------------|------|
| Net pension and postretirement benefit costs,<br>net of income taxes of \$3               |              |                |               |                 |                 |                 |                   |                 |             |      |
| Deferred compensation   |              |                |               |                 |                 |                 |                   |                 |             | (6)  |
| Cash dividends declared on common shares<br>(\$0.075 per share)                           |              |                |               |                 |                 |                 |                   |                 |             | (63) |
| Cash dividends declared on Noncumulative<br>Series A Preferred Stock (\$1.9375 per share) |              |                |               |                 |                 |                 |                   |                 |             | (5)  |
| Common shares reissued (returned) for stock<br>options and other employee benefit plans   | 6,539        |                |               |                 |                 |                 |                   |                 | (98)        | 112  |
| Net contribution from (distribution to)<br>noncontrolling interests                       |              |                |               |                 |                 |                 |                   |                 |             | (8)  |
| <b>BALANCE AT MARCH 31, 2016</b>  | <b>2,900</b> | <b>842,290</b> | <b>\$ 290</b> | <b>\$ 1,017</b> | <b>\$ 3,818</b> | <b>\$ 9,042</b> | <b>\$ (2,888)</b> | <b>\$ (213)</b> | <b>\$ 5</b> |      |

See Notes to Consolidated Financial Statements (Unaudited).

**Table of Contents****Consolidated Statements of Cash Flows (Unaudited)**

| <i>in millions</i>   | <b>Three months ended March 31,</b> |                |
|--|-------------------------------------|----------------|
|  | <b>2016</b>                         | <b>2015</b>    |
| <b>OPERATING ACTIVITIES</b>  |                                     |                |
| Net income (loss)  | \$ 188                              | \$ 235         |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                     |                |
| Provision for credit losses  | 89                                  | 35             |
| Depreciation, amortization and accretion expense, net  | 62                                  | 50             |
| Increase in cash surrender value of corporate-owned life insurance                                 | (25)                                | (25)           |
| Stock-based compensation expense   | 19                                  | 13             |
| FDIC reimbursement (payments), net of FDIC expense   | 1                                   |                |
| Deferred income taxes (benefit)  | 50                                  | 50             |
| Proceeds from sales of loans held for sale   | 1,110                               | 1,225          |
| Originations of loans held for sale, net of repayments   | (1,153)                             | (2,109)        |
| Net losses (gains) on sales of loans held for sale   | (2)                                 | (20)           |
| Net losses (gains) from principal investing  |                                     | (29)           |
| Net losses (gains) and writedown on OREO   | 1                                   |                |
| Net losses (gains) on leased equipment   |                                     | (3)            |
| Net losses (gains) on sales of fixed assets  | 1                                   |                |
| Net decrease (increase) in trading account assets  | 23                                  | (39)           |
| Other operating activities, net  | 9                                   | (485)          |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>   | <b>373</b>                          | <b>(1,102)</b> |
| <b>INVESTING ACTIVITIES</b>  |                                     |                |
| Net decrease (increase) in short-term investments, excluding acquisitions                          | (2,729)                             | 891            |
| Purchases of securities available for sale   | (610)                               | (403)          |
| Proceeds from prepayments and maturities of securities available for sale                          | 722                                 | 724            |
| Proceeds from prepayments and maturities of held-to-maturity securities                            | 251                                 | 266            |
| Purchases of held-to-maturity securities   | (358)                               | (257)          |
| Purchases of other investments   | (18)                                | (13)           |
| Proceeds from sales of other investments   | 24                                  | 32             |
| Proceeds from prepayments and maturities of other investments                                      |                                     | 4              |
| Net decrease (increase) in loans, excluding acquisitions, sales and transfers                      | (663)                               | (727)          |
| Proceeds from sales of portfolio loans   | 40                                  | 47             |
| Proceeds from corporate-owned life insurance   | 9                                   | 15             |
| Purchases of premises, equipment, and software   | (8)                                 | (3)            |
| Proceeds from sales of OREO  | 3                                   | 6              |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>   | <b>(3,337)</b>                      | <b>582</b>     |
| <b>FINANCING ACTIVITIES</b>  |                                     |                |
| Net increase (decrease) in deposits, excluding acquisitions  | 2,336                               | (376)          |
| Net increase (decrease) in short-term borrowings   | 84                                  | 127            |
| Net proceeds from issuance of long-term debt   | 976                                 | 1,000          |
| Payments on long-term debt   | (498)                               | (129)          |

|   |               |           |       |
|---|---------------|-----------|-------|
| Repurchase of common shares                                 |               |           | (197) |
| Net proceeds from reissuance of common shares               | <b>1</b>      |           | 9     |
| Cash dividends paid   | <b>(68)</b>   |           | (61)  |
| <b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>  | <b>2,831</b>  |           | 373   |
| <b>NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS</b>   | <b>(133)</b>  |           | (147) |
| <b>CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD</b>       | <b>607</b>    |           | 653   |
| <b>CASH AND DUE FROM BANKS AT END OF PERIOD</b>             | <b>\$ 474</b> | <b>\$</b> | 506   |
| Additional disclosures relative to cash flows:              |               |           |       |
| Interest paid   | <b>\$ 108</b> | <b>\$</b> | 98    |
| Income taxes paid (refunded)                                | <b>13</b>     |           | 19    |
| Noncash items:  |               |           |       |
| Reduction of secured borrowing and related collateral       | <b>\$ 21</b>  | <b>\$</b> | 72    |
| Loans transferred to held for sale from portfolio           |               |           | 10    |
| Loans transferred to OREO                                   | <b>4</b>      |           | 7     |
| See Notes to Consolidated Financial Statements (Unaudited). |               |           |       |

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**Notes to Consolidated Financial Statements (Unaudited)**

**1. Basis of Presentation and Accounting Policies**

As used in these Notes, 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, KeyBank National Association.

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

References to our 2015 Form 10-K refer to our Form 10-K for the year ended December 31, 2015, which was filed with the U.S. Securities and Exchange Commission and is available on its website ([www.sec.gov](http://www.sec.gov)) and on our website ([www.key.com/ir](http://www.key.com/ir)).

AICPA: American Institute of Certified Public Accountants.

ALCO: Asset/Liability Management Committee.

ALLL: Allowance for loan and lease losses.

A/LM: Asset/liability management.

AOCI: Accumulated other comprehensive income (loss).

APBO: Accumulated postretirement benefit obligation.

Austin: Austin Capital Management, Ltd.

BHCs: Bank holding companies.

Board: KeyCorp Board of Directors.

CCAR: Comprehensive Capital Analysis and Review.

CMBS: Commercial mortgage-backed securities.

CMO: Collateralized mortgage obligation.

Common shares: KeyCorp common shares, \$1 par value.

DIF: Deposit Insurance Fund of the FDIC.

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.

EBITDA: Earnings before interest, taxes, depreciation, and amortization.

EPS: Earnings per share.

ERM: Enterprise risk management.

EVE: Economic value of equity.

FASB: Financial Accounting Standards Board.

FDIC: Federal Deposit Insurance Corporation.

Federal Reserve: Board of Governors of the Federal Reserve System.

FHLB: Federal Home Loan Bank of Cincinnati.

KCDC: Key Community Development Corporation.

KEF: Key Equipment Finance.

KPP: Key Principal Partners

KREEC: Key Real Estate Equity Capital, Inc.

LCR: Liquidity coverage ratio.

LIBOR: London Interbank Offered Rate.

LIHTC: Low-income housing tax credit.

Moody's: Moody's Investor Services, Inc.

MRM: Market Risk Management group.

N/A: Not applicable.

NASDAQ: The NASDAQ Stock Market LLC.

NAV: Net asset value.

N/M: Not meaningful.

NOW: Negotiable Order of Withdrawal.

NPR: Notice of proposed rulemaking.

NYSE: New York Stock Exchange.

OCC: Office of the Comptroller of the Currency.

OCI: Other comprehensive income (loss).

OREO: Other real estate owned.

OTTI: Other-than-temporary impairment.

PBO: Projected benefit obligation.

PCI: Purchased credit impaired.

S&P: Standard and Poor's Ratings Services, a Division of The

McGraw-Hill Companies, Inc.

SEC: U.S. Securities and Exchange Commission.

Series A Preferred Stock: KeyCorp's 7.75% Noncumulative



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FHLMC: Federal Home Loan Mortgage Corporation.  
First Niagara: First Niagara Financial Group, Inc.

(NASDAQ: FNFG).

FNMA: Federal National Mortgage Association, or Fannie Mae.

FSOC: Financial Stability Oversight Council.

GAAP: U.S. generally accepted accounting principles.

GNMA: Government National Mortgage Association.

ISDA: International Swaps and Derivatives Association.

KAHC: Key Affordable Housing Corporation.

KBCM: KeyBanc Capital Markets, Inc.

KCC: Key Capital Corporation.

Perpetual Convertible Preferred Stock, Series A.

SIFIs: Systemically important financial institutions, including

BHCs with total consolidated assets of at least \$50 billion

and nonbank financial companies designated by FSOC for

supervision by the Federal Reserve.

TDR: Troubled debt restructuring.

TE: Taxable-equivalent.

U.S. Treasury: United States Department of the Treasury.

VaR: Value at risk.

VEBA: Voluntary Employee Beneficiary Association.

VIE: Variable interest entity.

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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 impact the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). 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% generally are carried at cost. 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 2015 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.

## **Offsetting Derivative Positions**

In accordance with the applicable accounting guidance, we take into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related cash collateral when recognizing derivative assets and liabilities. Additional information regarding derivative offsetting is provided in Note 7 ( Derivatives and Hedging Activities ).

## **Accounting Guidance Adopted in 2016**

**Business combinations.** In September 2015, the FASB issued new accounting guidance that obligates an acquirer in a business combination to recognize adjustments to provisional amounts in the reporting period that the amounts were determined, eliminating the requirement for retrospective adjustments. The acquirer should record in the current period any income effects that resulted from the change in provisional amounts, calculated as if the accounting were completed at the acquisition date. This accounting guidance was effective prospectively for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us). Early adoption was permitted. The adoption of this accounting guidance did not affect our financial condition or results of operations.

***Fair value measurement.*** In May 2015, the FASB issued new disclosure guidance that eliminates the requirement to categorize investments measured using the net asset value practical expedient in the fair value hierarchy table. Entities are required to disclose the fair value of investments measured using the net asset value practical expedient so that financial statement users can reconcile amounts reported in the fair value hierarchy table to amounts reported on the balance sheet. This disclosure guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (March 31, 2016, for us) on a retrospective basis. Early adoption was permitted. The adoption of this disclosure guidance did not affect our financial condition or results of operations. We provide the disclosure related to this new guidance in Note 5 ( Fair Value Measurements ).

***Cloud computing fees.*** In April 2015, the FASB issued new accounting guidance that clarifies a customer's accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a

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service contract. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using either a prospective method or a retrospective method. Early adoption was permitted. We elected to implement this new accounting guidance using a prospective approach. The adoption of this accounting guidance did not affect our financial condition or results of operations.

***Imputation of interest.*** In April 2015, the FASB issued new accounting guidance that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This accounting guidance was effective retrospectively for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us). Early adoption was permitted. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

***Consolidation.*** In February 2015, the FASB issued new accounting guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance amends the current accounting guidance to address limited partnerships and similar legal entities, certain investment funds, fees paid to a decision maker or service provider, and the impact of fee arrangements and related parties on the primary beneficiary determination. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and was implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption was permitted. The adoption of this accounting guidance did not affect our financial condition or results of operations. Our Principal Investing unit and the Real Estate Capital line of business have equity and mezzanine investments, which were subjected to the new guidance. We determined these investments are VIEs. We provide disclosures related to our variable interest entities as required by the new guidance in Note 9 ( Variable Interest Entities ).

***Derivatives and hedging.*** In November 2014, the FASB issued new accounting guidance that clarifies how current guidance should be interpreted when evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. An entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, when evaluating the nature of a host contract. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption was permitted. The adoption of this accounting guidance did not affect our financial condition or results of operations.

***Consolidation.*** In August 2014, the FASB issued new accounting guidance that clarifies how to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using either a retrospective method or a cumulative-effect approach. Early adoption was permitted. The adoption of this accounting guidance did not affect our financial condition or results of operations.

***Stock-based compensation.*** In June 2014, the FASB issued new accounting guidance that clarifies how to account for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using either a retrospective method or a prospective method. Early adoption was permitted. We elected to implement this new accounting guidance using a prospective approach. The adoption of this accounting guidance did not affect our financial condition or results of operations.

**Accounting Guidance Pending Adoption at March 31, 2016**

***Stock-based compensation.*** In March 2016, the FASB issued new accounting guidance that simplifies accounting for several aspects of share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and presentation on the statement of cash flows. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). The method of transition is dependent on the particular amendment within the new guidance. Early adoption is permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

***Equity method investments.*** In March 2016, the FASB issued new accounting guidance that simplifies the transition to equity method accounting by eliminating the requirement for an investor to make retroactive adjustments to the investment, results of operations, and retained earnings on a step-by-step basis when an investment becomes qualified for equity method accounting. Instead, when an investment qualifies for the equity method due to an increase in ownership or degree of

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influence, an equity method investor is required to add the cost of acquiring the additional interest to the current basis of the previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for the equity method. This accounting guidance will be effective prospectively for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Derivatives and hedging.*** In March 2016, the FASB issued new accounting guidance that requires an entity to use a four-step decision model when assessing contingent call (put) options that can accelerate the payment of principal on debt instruments to determine whether they are clearly and closely related to their debt hosts. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and must be implemented using a modified retrospective basis. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Derivatives and hedging.*** In March 2016, the FASB issued new accounting guidance that clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, by itself, require dedesignation, but all other hedge accounting criteria must be met. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and can be implemented using either a prospective method or a modified retrospective method. Early adoption is permitted. We have elected to implement this new accounting guidance using a prospective method. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Extinguishment of liabilities.*** In March 2016, the FASB issued new accounting guidance that clarifies that liabilities related to the sale of prepaid stored-value products are financial liabilities, and breakage should be accounted for under the breakage guidance in the new revenue recognition accounting guidance. It also provides clarity on how prepaid product liabilities should be derecognized. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and can be implemented using either a modified retrospective approach or retrospective approach. We are currently determining a transition method and evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

***Leases.*** In February 2016, the FASB issued new accounting guidance that requires a lessee to recognize a liability to make lease payments and a right of use asset representing its right to use an underlying asset during the lease term for both finance and operating leases. The definition of a lease was modified to exemplify the concept of control over an asset identified in the lease. Lease classification criteria remains substantially similar to criteria in current lease guidance. The guidance defines which payments can be used in determining lease classification. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. Lessor accounting is largely unchanged. Leveraged leases that commenced before the effective date of the new guidance are grandfathered. New disclosures are required, and certain practical expedients are allowed upon adoption. This accounting and disclosure guidance will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019, for us) and should be implemented using the modified retrospective approach. Early adoption is permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

***Financial instruments.*** In January 2016, the FASB issued new accounting guidance that 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. We have not elected to measure any of our liabilities at fair value, and therefore, this aspect of the guidance is not applicable to us. This accounting and disclosure guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). For the guidance applicable to us, the accounting will be implemented on a prospective basis, whereby early adoption is not permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

**Going concern.** In August 2014, the FASB issued new accounting guidance that requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. Disclosure is required when conditions or events raise substantial doubt about an entity's ability to

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continue as a going concern. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Revenue recognition.*** In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. In August 2015, the FASB issued an update that defers the effective date of the revenue recognition guidance by one year. This new guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. We have elected to implement this new accounting guidance using a cumulative-effect approach. Our preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations. There are many aspects of this new accounting guidance that are still being interpreted, and the FASB has recently issued updates to certain aspects of the guidance to address implementation issues. For example, the FASB issued accounting guidance in March 2016 to clarify principal versus agent considerations and additional guidance in April 2016 to clarify the identification of performance obligations and the licensing implementation guidance. The results of our materiality analysis may change based on the conclusions reached as to the application of the new guidance.



**Table of Contents****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 incremental shares issued for the conversion of our convertible Series A Preferred Stock, 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. For diluted earnings per share, net income available to common shareholders can be affected by the conversion of our convertible Series A Preferred Stock. Where the effect of this conversion would be dilutive, net income available to common shareholders is adjusted by the amount of preferred dividends associated with our Series A Preferred Stock.

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

| <i>dollars in millions, except per share amounts</i>                                  | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| <b>EARNINGS</b>   |                                     |             |
| Income (loss) from continuing operations  | \$ 187                              | \$ 230      |
| Less: Net income (loss) attributable to noncontrolling interests                      |                                     | 2           |
| Income (loss) from continuing operations attributable to Key                          | 187                                 | 228         |
| Less: Dividends on Series A Preferred Stock   | 5                                   | 6           |
| Income (loss) from continuing operations attributable to Key common shareholders      | 182                                 | 222         |
| Income (loss) from discontinued operations, net of taxes (a)                          | 1                                   | 5           |
| Net income (loss) attributable to Key common shareholders                             | \$ 183                              | \$ 227      |
| <b>WEIGHTED-AVERAGE COMMON SHARES</b>   |                                     |             |
| Weighted-average common shares outstanding (000) (b)                                  | 827,381                             | 848,580     |
| Effect of convertible preferred stock   |                                     |             |
| Effect of common share options and other stock awards (b)                             | 7,679                               | 8,542       |
| Weighted-average common shares and potential common shares outstanding (000) (b), (c) | 835,060                             | 857,122     |
| <b>EARNINGS PER COMMON SHARE</b>  |                                     |             |
|   | \$ .22                              | \$ .26      |

|  |               |           |            |
|--|---------------|-----------|------------|
| Income (loss) from continuing operations attributable to Key common shareholders                   |               |           |            |
| Income (loss) from discontinued operations, net of taxes (a)                                       |               |           | .01        |
| Net income (loss) attributable to Key common shareholders (d)                                      | <b>.22</b>    |           | <b>.27</b> |
| Income (loss) from continuing operations attributable to Key common shareholders assuming dilution |               |           |            |
|  | <b>\$ .22</b> | <b>\$</b> | <b>.26</b> |
| Income (loss) from discontinued operations, net of taxes (a)                                       |               |           | .01        |
| Net income (loss) attributable to Key common shareholders assuming dilution <sup>(d)</sup>         | <b>.22</b>    |           | <b>.26</b> |

- (a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 11 ( Acquisitions and Discontinued Operations ).
- (b) For the three months ended March 31, 2016, weighted-average common shares outstanding, effect of common share options and other stock awards, and weighted-average common shares and potential common shares outstanding have been revised from our financial results reported on Form 8-K on April 21, 2016.
- (c) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.
- (d) EPS may not foot due to rounding.

Table of Contents**3. Loans and Loans Held for Sale**

Our loans by category are summarized as follows:

| <i>in millions</i>                                    | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Commercial, financial and agricultural <sup>(a)</sup> | <b>\$ 31,976</b>          | \$ 31,240                    | \$ 28,783                 |
| Commercial real estate:                               |                           |                              |                           |
| Commercial mortgage                                   | <b>8,364</b>              | 7,959                        | 8,162                     |
| Construction  | <b>841</b>                | 1,053                        | 1,142                     |
| <b>Total commercial real estate loans</b>             | <b>9,205</b>              | 9,012                        | 9,304                     |
| Commercial lease financing <sup>(b)</sup>             | <b>3,934</b>              | 4,020                        | 4,064                     |
| <b>Total commercial loans</b>                         | <b>45,115</b>             | 44,272                       | 42,151                    |
| Residential prime loans:                              |                           |                              |                           |
| Real estate residential mortgage                      | <b>2,234</b>              | 2,242                        | 2,231                     |
| Home equity loans                                     | <b>10,149</b>             | 10,335                       | 10,523                    |
| <b>Total residential prime loans</b>                  | <b>12,383</b>             | 12,577                       | 12,754                    |
| Consumer direct loans                                 | <b>1,579</b>              | 1,600                        | 1,547                     |
| Credit cards  | <b>782</b>                | 806                          | 727                       |
| Consumer indirect loans                               | <b>579</b>                | 621                          | 774                       |
| <b>Total consumer loans</b>                           | <b>15,323</b>             | 15,604                       | 15,802                    |
| <b>Total loans <sup>(c) (d)</sup></b>                 | <b>\$ 60,438</b>          | \$ 59,876                    | \$ 57,953                 |

- (a) Loan balances include \$85 million, \$85 million, and \$87 million of commercial credit card balances at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.
- (b) Commercial lease financing includes receivables held as collateral for a secured borrowing of \$115 million, \$134 million, and \$230 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively. Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 18 ( Long-Term Debt ) beginning on page 208 of our 2015 Form 10-K.
- (c) At March 31, 2016, total loans include purchased loans of \$109 million, of which \$11 million were PCI loans. At December 31, 2015, total loans include purchased loans of \$114 million, of which \$11 million were PCI loans. At March 31, 2015, total loans include purchased loans of \$130 million, of which \$12 million were PCI loans.
- (d) Total loans exclude loans of \$1.8 billion at March 31, 2016, \$1.8 billion at December 31, 2015, and \$2.2 billion at March 31, 2015, related to the discontinued operations of the education lending business. Additional information pertaining to these loans is provided in Note 11 ( Acquisitions and Discontinued Operations ).

Our loans held for sale are summarized as follows:

| <i>in millions</i>                     | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--|---------------------------|------------------------------|---------------------------|
| Commercial, financial and agricultural | \$ 103                    | \$ 76                        | \$ 183                    |
| Real estate commercial mortgage        | 562                       | 532                          | 1,408                     |
| Commercial lease financing             |                           | 14                           | 14                        |
| Real estate residential mortgage       | 19                        | 17                           | 44                        |
| <b>Total loans held for sale</b>       | <b>\$ 684</b>             | <b>\$ 639</b>                | <b>\$ 1,649</b>           |

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Our quarterly summary of changes in loans held for sale follows:

| <i>in millions</i>                        | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Balance at beginning of the period        | \$ 639                    | \$ 916                       | \$ 734                    |
| New originations                          | 1,114                     | 1,655                        | 2,130                     |
| Transfers from (to) held to maturity, net |                           | 22                           | 10                        |
| Loan sales                                | (1,108)                   | (1,943)                      | (1,204)                   |
| Loan draws (payments), net                | 39                        | (11)                         | (21)                      |
| Balance at end of period                  | \$ 684                    | \$ 639                       | \$ 1,649                  |

Table of Contents**4. Asset Quality**

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

Nonperforming loans are loans for which we do not accrue interest income, and include commercial and consumer loans and leases, as well as current year TDRs and nonaccruing TDR loans from prior years. Nonperforming loans do not include loans held for sale or PCI loans. Nonperforming assets include nonperforming loans, nonperforming loans held for sale, OREO, and other nonperforming assets.

Our nonperforming assets and past due loans were as follows:

| <i>in millions</i>  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Total nonperforming loans <sup>(a), (b)</sup>   | \$ 676                    | \$ 387                       | \$ 437                    |
| OREO <sup>(c)</sup>   | 14                        | 14                           | 20                        |
| Other nonperforming assets  | 2                         | 2                            |                           |
| <b>Total nonperforming assets</b>   | <b>\$ 692</b>             | <b>\$ 403</b>                | <b>\$ 457</b>             |
| Nonperforming assets from discontinued operations -<br>education lending <sup>(d)</sup> | \$ 6                      | \$ 7                         | \$ 8                      |
| Restructured loans included in nonperforming loans                                      | \$ 151                    | \$ 159                       | \$ 141                    |
| Restructured loans with an allocated specific allowance<br><sup>(e)</sup>               | 59                        | 69                           | 70                        |
| Specifically allocated allowance for restructured loans <sup>(f)</sup>                  | 29                        | 30                           | 39                        |
| Accruing loans past due 90 days or more   | \$ 70                     | \$ 72                        | \$ 111                    |
| Accruing loans past due 30 through 89 days  | 237                       | 208                          | 216                       |

- (a) Loan balances exclude \$11 million, \$11 million, and \$12 million of PCI loans at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.
- (b) Includes carrying value of consumer residential mortgage loans in the process of foreclosure of approximately \$131 million, \$114 million, and \$119 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.
- (c) Includes carrying value of foreclosed residential real estate of approximately \$11 million, \$11 million, and \$17 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.
- (d) Restructured loans of approximately \$21 million, \$21 million, and \$18 million are included in discontinued operations at March 31, 2016, December 31, 2015, and March 31, 2015, respectively. See Note 11 ( Acquisitions and Discontinued Operations ) for further discussion.
- (e) Included in individually impaired loans allocated a specific allowance.
- (f) Included in allowance for individually evaluated impaired loans.

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. 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 and initially recorded at fair value without recording an allowance for loan losses. All PCI loans were acquired in 2012. At the 2012 acquisition date, the estimated gross contractual amount receivable of all PCI loans totaled \$41 million. The estimated cash flows not expected to be collected (the nonaccretable amount) were \$11 million, and the accretable amount was approximately \$5 million. The difference between the fair value and the cash flows expected to be collected from the purchased loans is accreted to interest income over the remaining term of the loans.

At March 31, 2016, the outstanding unpaid principal balance and carrying value of all PCI loans was \$17 million and \$11 million, respectively, compared to \$17 million and \$11 million, respectively, at December 31, 2015, and \$19 million and \$12 million, respectively, at March 31, 2015. Changes in the accretable yield during the first quarter of 2016 included accretion and net reclassifications of less than \$1 million, resulting in an ending balance of \$5 million at March 31, 2016. Changes in the accretable yield during 2015 included accretion and net reclassifications of less than \$1 million, resulting in an ending balance of \$5 million at December 31, 2015, which was unchanged from the ending balance at December 31, 2014. Changes in the accretable yield during the first quarter of 2015 included accretion and net reclassifications of less than \$1 million, resulting in an ending balance of \$5 million at March 31, 2015.

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At March 31, 2016, the approximate carrying amount of our commercial nonperforming loans outstanding represented 89% of their original contractual amount owed, total nonperforming loans outstanding represented 88% of their original contractual amount owed, and nonperforming assets in total were carried at 88% of their original contractual amount owed.

At March 31, 2016, our 20 largest nonperforming loans totaled \$359 million, representing 54% of total loans on nonperforming status. At March 31, 2015, our 20 largest nonperforming loans totaled \$123 million, representing 28% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by \$5 million for the three months ended March 31, 2016, and \$4 million for the three months ended March 31, 2015.

The following tables set forth a further breakdown of individually impaired loans as of March 31, 2016, December 31, 2015, and March 31, 2015:

| <b>March 31, 2016</b><br><i>in millions</i>    | <b>Recorded<br/>Investment</b> <sup>(a)</sup> | <b>Unpaid<br/>Principal<br/>Balance</b> <sup>(b)</sup> | <b>Specific<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> |
|--|---|--|-------------------------------|--|
| <b>With no related allowance recorded:</b>     |   |  |                               |  |
| Commercial, financial and agricultural         | \$ 260  | \$ 270   |                               | \$ 150                                     |
| <b>Commercial real estate:</b>                 |   |  |                               |  |
| Commercial mortgage                            | 4   | 7  |                               | 4  |
| Construction                                   | 8   | 8  |                               | 7  |
| Total commercial real estate loans             | 12  | 15   |                               | 11   |
| <b>Total commercial loans</b>                  | <b>272</b>                                    | <b>285</b>   |                               | <b>161</b>                                 |
| Real estate residential mortgage               | 23  | 23   |                               | 23   |
| Home equity loans                              | 68  | 68   |                               | 65   |
| Consumer indirect loans                        | 1   | 1  |                               | 1  |
| <b>Total consumer loans</b>                    | <b>92</b>                                     | <b>92</b>  |                               | <b>89</b>                                  |
| Total loans with no related allowance recorded | 364   | 377  |                               | 250  |
| <b>With an allowance recorded:</b>             |   |  |                               |  |
| Commercial, financial and agricultural         | 101   | 113  | \$ 28                         | 64   |
| <b>Commercial real estate:</b>                 |   |  |                               |  |
| Commercial mortgage                            | 4   | 4  | 1                             | 5  |
| <b>Total commercial real estate loans</b>      | <b>4</b>                                      | <b>4</b>   | <b>1</b>                      | <b>5</b>                                   |
| Total commercial loans                         | 105   | 117  | 29                            | 69   |



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|  |        |        |       |        |
|--|--------|--------|-------|--------|
| Real estate residential mortgage       | 32     | 32     | 3     | 33     |
| Home equity loans                      | 65     | 65     | 19    | 64     |
| Consumer direct loans                  | 3      | 3      |       | 3      |
| Credit cards                           | 3      | 3      |       | 3      |
| Consumer indirect loans                | 35     | 35     | 3     | 36     |
| Total consumer loans                   | 138    | 138    | 25    | 139    |
| Total loans with an allowance recorded | 243    | 255    | 54    | 208    |
| Total                                  | \$ 607 | \$ 632 | \$ 54 | \$ 458 |

- (a) The Recorded Investment represents 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. 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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| <b>December 31, 2015</b><br><i>in millions</i> | <b>Recorded<br/>Investment <sup>(a)</sup></b> | <b>Unpaid<br/>Principal<br/>Balance <sup>(b)</sup></b> | <b>Specific<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> |
|--|---|--|-------------------------------|--|
| <b>With no related allowance recorded:</b>     |   |  |                               |  |
| Commercial, financial and agricultural         | \$ 40   | \$ 74  |                               | \$ 23                                      |
| <b>Commercial real estate:</b>                 |   |  |                               |  |
| Commercial mortgage                            | 5   | 8  |                               | 10   |
| Construction                                   | 5   | 5  |                               | 5  |
| Total commercial real estate loans             | 10  | 13   |                               | 15   |
| <b>Total commercial loans</b>                  | <b>50</b>                                     | <b>87</b>  |                               | <b>38</b>                                  |
| Real estate residential mortgage               | 23  | 23   |                               | 24   |
| Home equity loans                              | 61  | 61   |                               | 62   |
| <b>Consumer direct loans</b>                   |   |  |                               |  |
| <b>Credit cards</b>                            |   |  |                               |  |
| Consumer indirect loans                        | 1   | 1  |                               | 1  |
| <b>Total consumer loans</b>                    | <b>85</b>                                     | <b>85</b>  |                               | <b>87</b>                                  |
| Total loans with no related allowance recorded | 135   | 172  |                               | 125  |
| <b>With an allowance recorded:</b>             |   |  |                               |  |
| Commercial, financial and agricultural         | 28  | 43   | \$ 7                          | 33   |
| <b>Commercial real estate:</b>                 |   |  |                               |  |
| Commercial mortgage                            | 5   | 6  | 1                             | 6  |
| Construction                                   |   |  |                               | 1  |
| Total commercial real estate loans             | 5   | 6  | 1                             | 7  |
| <b>Total commercial loans</b>                  | <b>33</b>                                     | <b>49</b>  | <b>8</b>                      | <b>40</b>                                  |
| Real estate residential mortgage               | 33  | 33   | 4                             | 32   |
| Home equity loans                              | 64  | 64   | 20                            | 60   |
| Consumer direct loans                          | 3   | 3  |                               | 4  |
| Credit cards                                   | 3   | 3  |                               | 4  |
| Consumer indirect loans                        | 37  | 37   | 3                             | 40   |
| <b>Total consumer loans</b>                    | <b>140</b>                                    | <b>140</b>   | <b>27</b>                     | <b>140</b>                                 |
| Total loans with an allowance recorded         | 173   | 189  | 35                            | 180  |
| <b>Total</b>                                   | <b>\$ 308</b>                                 | <b>\$ 361</b>  | <b>\$ 35</b>                  | <b>\$ 305</b>                              |

- (a) The Recorded Investment represents 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. 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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| <b>March 31, 2015</b><br><i>in millions</i>    | <b>Recorded<br/>Investment</b> <sup>(a)</sup> | <b>Unpaid<br/>Principal<br/>Balance</b> <sup>(b)</sup> | <b>Specific<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> |
|--|---|--|-------------------------------|--|
| <b>With no related allowance recorded:</b>     |   |  |                               |  |
| Commercial, financial and agricultural         | \$ 20   | \$ 51  |                               | \$ 13                                      |
| <b>Commercial real estate:</b>                 |   |  |                               |  |
| Commercial mortgage                            | 14  | 19   |                               | 14   |
| Construction                                   | 7   | 7  |                               | 6  |
| Total commercial real estate loans             | 21  | 26   |                               | 20   |
| <b>Total commercial loans</b>                  | <b>41</b>                                     | <b>77</b>  |                               | <b>33</b>                                  |
| Real estate residential mortgage               | 23  | 23   |                               | 23   |
| Home equity loans                              | 63  | 64   |                               | 63   |
| Consumer indirect loans                        | 1   | 1  |                               | 2  |
| <b>Total consumer loans</b>                    | <b>87</b>                                     | <b>88</b>  |                               | <b>88</b>                                  |
| Total loans with no related allowance recorded | 128   | 165  |                               | 121  |
| <b>With an allowance recorded:</b>             |   |  |                               |  |
| Commercial, financial and agricultural         | 62  | 62   | \$ 20                         | 50   |
| <b>Commercial real estate:</b>                 |   |  |                               |  |
| Commercial mortgage                            | 6   | 7  | 2                             | 6  |
| Construction                                   |   |  |                               | 1  |
| Total commercial real estate loans             | 6   | 7  | 2                             | 7  |
| <b>Total commercial loans</b>                  | <b>68</b>                                     | <b>69</b>  | <b>22</b>                     | <b>57</b>                                  |
| Real estate residential mortgage               | 32  | 32   | 5                             | 32   |
| Home equity loans                              | 60  | 60   | 18                            | 59   |
| Consumer direct loans                          | 3   | 3  |                               | 3  |
| Credit cards                                   | 4   | 4  |                               | 4  |
| Consumer indirect loans                        | 43  | 43   | 4                             | 44   |
| <b>Total consumer loans</b>                    | <b>142</b>                                    | <b>142</b>   | <b>27</b>                     | <b>142</b>                                 |
| Total loans with an allowance recorded         | 210   | 211  | 49                            | 199  |
| <b>Total</b>                                   | <b>\$ 338</b>                                 | <b>\$ 376</b>  | <b>\$ 49</b>                  | <b>\$ 320</b>                              |

(a) The Recorded Investment represents 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. 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.

For the three months ended March 31, 2016, and March 31, 2015, interest income recognized on the outstanding balances of accruing impaired loans totaled \$4 million and \$1 million, respectively.

At March 31, 2016, aggregate restructured loans (accrual and nonaccrual loans) totaled \$283 million, compared to \$280 million at December 31, 2015, and \$268 million at March 31, 2015. During the first three months of 2016, we added \$23 million in restructured loans, which were partially offset by \$20 million in payments and charge-offs. During 2015, we added \$99 million in restructured loans, which were partially offset by \$89 million in payments and charge-offs. During the first three months of 2015, we added \$11 million in restructured loans, which were offset by \$13 million in payments and charge-offs.

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A further breakdown of TDRs included in nonperforming loans by loan category as of March 31, 2016, follows:

| <b>March 31, 2016</b><br><i>dollars in millions</i> | <b>Number<br/>of Loans</b> | <b>Pre-modification<br/>Outstanding<br/>Recorded<br/>Investment</b> | <b>Post-modification<br/>Outstanding<br/>Recorded<br/>Investment</b> |
|---|----------------------------|---|--|
| <b>LOAN TYPE</b>                                    |                            |   |  |
| <b>Nonperforming:</b>                               |                            |   |  |
| Commercial, financial and agricultural              | 13                         | \$ 58   | \$ 46  |
| Commercial real estate:                             |                            |   |  |
| Real estate commercial mortgage                     | 10                         | 13  | 4  |
| Total commercial loans                              | 23                         | 71  | 50   |
| Real estate residential mortgage                    | 323                        | 21  | 21   |
| Home equity loans                                   | 1,350                      | 85  | 76   |
| Consumer direct loans                               | 29                         | 1   |  |
| Credit cards  | 253                        | 1   | 1  |
| Consumer indirect loans                             | 94                         | 4   | 3  |
| Total consumer loans                                | 2,049                      | 112   | 101  |
| <b>Total nonperforming TDRs</b>                     | <b>2,072</b>               | <b>183</b>  | <b>151</b>   |
| <b>Prior-year accruing: <sup>(a)</sup></b>          |                            |   |  |
| Commercial, financial and agricultural              | 7                          | 5   | 2  |
| Total commercial loans                              | 7                          | 5   | 2  |
| Real estate residential mortgage                    | 532                        | 36  | 36   |
| Home equity loans                                   | 1,149                      | 68  | 57   |
| Consumer direct loans                               | 41                         | 2   | 2  |
| Credit cards  | 488                        | 3   | 2  |
| Consumer indirect loans                             | 445                        | 59  | 33   |
| Total consumer loans                                | 2,655                      | 168   | 130  |
| <b>Total prior-year accruing TDRs</b>               | <b>2,662</b>               | <b>173</b>  | <b>132</b>   |
| <b>Total TDRs</b>                                   | <b>4,734</b>               | <b>\$ 356</b>   | <b>\$ 283</b>  |

(a) All TDRs that were restructured prior to January 1, 2016, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2015, follows:

| <b>December 31, 2015</b><br><i>dollars in millions</i> | <b>Number<br/>of Loans</b> | <b>Pre-modification<br/>Outstanding<br/>Recorded<br/>Investment</b> | <b>Post-modification<br/>Outstanding<br/>Recorded<br/>Investment</b> |
|--|----------------------------|---|--|
| <b>LOAN TYPE</b>                                       |                            |   |  |
| <b>Nonperforming:</b>                                  |                            |   |  |
| Commercial, financial and agricultural                 | 12                         | \$ 56   | \$ 45  |
| Commercial real estate:                                |                            |   |  |
| Real estate commercial mortgage                        | 12                         | 30  | 7  |
| Total commercial real estate loans                     | 12                         | 30  | 7  |
| Total commercial loans                                 | 24                         | 86  | 52   |
| Real estate residential mortgage                       | 366                        | 23  | 23   |
| Home equity loans                                      | 1,262                      | 85  | 76   |
| Consumer direct loans                                  | 28                         | 1   | 1  |
| Credit cards   | 339                        | 2   | 2  |
| Consumer indirect loans                                | 103                        | 6   | 5  |
| Total consumer loans                                   | 2,098                      | 117   | 107  |
| Total nonperforming TDRs                               | 2,122                      | 203   | 159  |
| <b>Prior-year accruing: <sup>(a)</sup></b>             |                            |   |  |
| Commercial, financial and agricultural                 | 7                          | 5   | 2  |
| Commercial real estate:                                |                            |   |  |
| Real estate commercial mortgage                        |                            |   |  |
| Total commercial real estate loans                     |                            |   |  |
| Total commercial loans                                 | 7                          | 5   | 2  |
| Real estate residential mortgage                       | 489                        | 34  | 34   |
| Home equity loans                                      | 1,071                      | 57  | 49   |
| Consumer direct loans                                  | 42                         | 2   | 2  |
| Credit cards   | 461                        | 4   | 2  |
| Consumer indirect loans                                | 430                        | 59  | 32   |
| Total consumer loans                                   | 2,493                      | 156   | 119  |
| Total prior-year accruing TDRs                         | 2,500                      | 161   | 121  |
| Total TDRs   | 4,622                      | \$ 364  | \$ 280   |

- (a) All TDRs that were restructured prior to January 1, 2015, and are fully accruing.



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A further breakdown of TDRs included in nonperforming loans by loan category as of March 31, 2015, follows:

| <b>March 31, 2015</b><br><i>dollars in millions</i> | <b>Number<br/>of Loans</b> | <b>Pre-modification<br/>Outstanding<br/>Recorded<br/>Investment</b> | <b>Post-modification<br/>Outstanding<br/>Recorded<br/>Investment</b> |
|---|----------------------------|---|--|
| <b>LOAN TYPE</b>                                    |                            |   |  |
| <b>Nonperforming:</b>                               |                            |   |  |
| Commercial, financial and agricultural              | 11                         | \$ 25   | \$ 22  |
| Commercial real estate:                             |                            |   |  |
| Real estate commercial mortgage                     | 12                         | 37  | 13   |
| Total commercial real estate loans                  | 12                         | 37  | 13   |
| Total commercial loans                              | 23                         | 62  | 35   |
| Real estate residential mortgage                    | 383                        | 22  | 22   |
| Home equity loans                                   | 1,199                      | 80  | 73   |
| Consumer direct loans                               | 28                         | 1   | 1  |
| Credit cards  | 275                        | 2   | 1  |
| Consumer indirect loans                             | 143                        | 9   | 9  |
| Total consumer loans                                | 2,028                      | 114   | 106  |
| Total nonperforming TDRs                            | 2,051                      | 176   | 141  |
| <b>Prior-year accruing: <sup>(a)</sup></b>          |                            |   |  |
| Commercial, financial and agricultural              | 17                         | 6   | 3  |
| Commercial real estate:                             |                            |   |  |
| Real estate commercial mortgage                     | 1                          | 2   | 1  |
| Total commercial real estate loans                  | 1                          | 2   | 1  |
| Total commercial loans                              | 18                         | 8   | 4  |
| Real estate residential mortgage                    | 454                        | 34  | 34   |
| Home equity loans                                   | 1,142                      | 57  | 49   |
| Consumer direct loans                               | 51                         | 2   | 2  |
| Credit cards  | 519                        | 4   | 2  |
| Consumer indirect loans                             | 505                        | 62  | 36   |
| Total consumer loans                                | 2,671                      | 159   | 123  |
| Total prior-year accruing TDRs                      | 2,689                      | 167   | 127  |
| Total TDRs  | 4,740                      | \$ 343  | \$ 268   |

(a) All TDRs that were restructured prior to January 1, 2015, and are fully accruing.

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. 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 if deemed appropriate. 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. Additional information regarding TDRs for discontinued operations is provided in Note 11 ( Acquisitions and Discontinued Operations ).

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 first three months of 2016, there were no commercial loan TDRs and 51 consumer loan TDRs with a combined recorded investment of \$3 million that experienced payment defaults after modifications resulting in TDR status during 2015. During the first three months of 2015, there were no significant commercial loan TDRs and 89 consumer loan TDRs with a combined recorded investment of \$4 million that experienced payment defaults from modifications resulting in TDR status during 2014. 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.

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. Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. The commercial TDR other concession category includes modification of loan terms, covenants, or conditions. The consumer TDR other concession category primarily includes those borrowers' debts that are discharged through Chapter 7 bankruptcy and have not been formally re-affirmed.

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The following table shows the post-modification outstanding recorded investment by concession type for our commercial and consumer accruing and nonaccruing TDRs and other selected financial data.

| <i>in millions</i>                                       | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|--|-------------------|----------------------|-------------------|
| <b>Commercial loans:</b>                                 |                   |                      |                   |
| Interest rate reduction                                  | \$ 48             | \$ 51                | \$ 12             |
| Forgiveness of principal                                 |                   | 2                    | 2                 |
| Other  | 4                 | 1                    | 25                |
| <b>Total</b>   | <b>\$ 52</b>      | <b>\$ 54</b>         | <b>\$ 39</b>      |
| <b>Consumer loans:</b>                                   |                   |                      |                   |
| Interest rate reduction                                  | \$ 128            | \$ 132               | \$ 140            |
| Forgiveness of principal                                 | 20                | 8                    | 4                 |
| Other  | 83                | 86                   | 85                |
| <b>Total</b>   | <b>\$ 231</b>     | <b>\$ 226</b>        | <b>\$ 229</b>     |
| <b>Total commercial and consumer TDRs <sup>(a)</sup></b> | <b>\$ 283</b>     | <b>\$ 280</b>        | <b>\$ 268</b>     |
| <b>Total loans</b>                                       | <b>60,438</b>     | <b>59,876</b>        | <b>57,953</b>     |

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are \$6 million, \$9 million, and \$5 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

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 121 of our 2015 Form 10-K.

At March 31, 2016, approximately \$59.4 billion, or 98.4%, of our total loans were current, compared to approximately \$59.2 billion, or 98.9% of total loans, at December 31, 2015, and approximately \$57.2 billion, or 98.7% of total loans, at March 31, 2015. At March 31, 2016, total past due loans and nonperforming loans of \$983 million represented approximately 1.6% of total loans, compared to \$667 million, or 1.1% of total loans, at December 31, 2015, and \$764 million, or 1.3% of total loans, at March 31, 2015.

The following aging analysis of past due and current loans as of March 31, 2016, December 31, 2015, and March 31, 2015, provides further information regarding Key's credit exposure.

|  | 30-59 | 60-89 | 90<br>and<br>Greater | Total<br>Past<br>Due and Purchased |
|--|-------|-------|----------------------|------------------------------------|
|--|-------|-------|----------------------|------------------------------------|

| March 31, 2016<br><i>in millions</i>   | Current   | Days Past Due | Days Past Due | Days Past Due | Nonperforming Loans | Nonperforming Loans | Credit Impaired | Total Loans |
|--|-----------|---------------|---------------|---------------|---------------------|---------------------|-----------------|-------------|
| <b>LOAN TYPE</b>                       |           |               |               |               |                     |                     |                 |             |
| Commercial, financial and agricultural | \$ 31,522 | \$ 30         | \$ 31         | \$ 13         | \$ 380              | \$ 454              |                 | \$ 31,976   |
| Commercial real estate:                |           |               |               |               |                     |                     |                 |             |
| Commercial mortgage                    | 8,327     | 3             | 3             | 15            | 16                  | 37                  |                 | 8,364       |
| Construction                           | 807       | 20            | 1             | 1             | 12                  | 34                  |                 | 841         |
| Total commercial real estate loans     | 9,134     | 23            | 4             | 16            | 28                  | 71                  |                 | 9,205       |
| Commercial lease financing             | 3,868     | 18            | 25            | 12            | 11                  | 66                  |                 | 3,934       |
| Total commercial loans                 | \$ 44,524 | \$ 71         | \$ 60         | \$ 41         | \$ 419              | \$ 591              |                 | \$ 45,115   |
| Real estate residential mortgage       | \$ 2,151  | \$ 10         | \$ 2          | \$ 2          | \$ 59               | \$ 73               | \$ 10           | \$ 2,234    |
| Home equity loans                      | 9,879     | 45            | 20            | 13            | 191                 | 269                 | 1               | 10,149      |
| Consumer direct loans                  | 1,564     | 6             | 3             | 5             | 1                   | 15                  |                 | 1,579       |
| Credit cards                           | 764       | 5             | 4             | 7             | 2                   | 18                  |                 | 782         |
| Consumer indirect loans                | 562       | 9             | 2             | 2             | 4                   | 17                  |                 | 579         |
| Total consumer loans                   | \$ 14,920 | \$ 75         | \$ 31         | \$ 29         | \$ 257              | \$ 392              | \$ 11           | \$ 15,323   |
| Total loans                            | \$ 59,444 | \$ 146        | \$ 91         | \$ 70         | \$ 676              | \$ 983              | \$ 11           | \$ 60,438   |

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| December 31, 2015<br><i>in millions</i> | 30-59<br>Days Past Due |        |       | 90 and<br>Greater<br>Days Past Due |        | Nonperforming<br>Loans | Nonperforming<br>Loans | Credit<br>Impaired | Total<br>Past<br>Due and Purchased<br>Loans |
|---|------------------------|--------|-------|------------------------------------|--------|------------------------|------------------------|--------------------|---|
|   | Current                | Due    | Due   | Due                                | Due    |                        |                        |                    |   |
| <b>LOAN TYPE</b>                        |                        |        |       |                                    |        |                        |                        |                    |   |
| Commercial, financial and agricultural  | \$ 31,116              | \$ 11  | \$ 11 | \$ 20                              | \$ 82  | \$ 124                 |                        |                    | \$ 31,240                                   |
| Commercial real estate:                 |                        |        |       |                                    |        |                        |                        |                    |   |
| Commercial mortgage                     | 7,917                  | 8      | 5     | 10                                 | 19     | 42                     |                        |                    | 7,959                                       |
| Construction                            | 1,042                  | 1      | 1     |                                    | 9      | 11                     |                        |                    | 1,053                                       |
| Total commercial real estate loans      |                        |        |       |                                    |        |                        |                        |                    |   |
|   | 8,959                  | 9      | 6     | 10                                 | 28     | 53                     |                        |                    | 9,012                                       |
| Commercial lease financing              | 3,952                  | 33     | 11    | 11                                 | 13     | 68                     |                        |                    | 4,020                                       |
| Total commercial loans                  |                        |        |       |                                    |        |                        |                        |                    |   |
|   | \$ 44,027              | \$ 53  | \$ 28 | \$ 41                              | \$ 123 | \$ 245                 |                        |                    | \$ 44,272                                   |
| Real estate residential mortgage        |                        |        |       |                                    |        |                        |                        |                    |   |
|   | \$ 2,149               | \$ 14  | \$ 3  | \$ 2                               | \$ 64  | \$ 83                  | \$ 10                  |                    | \$ 2,242                                    |
| Home equity loans                       | 10,056                 | 50     | 24    | 14                                 | 190    | 278                    | 1                      |                    | 10,335                                      |
| Consumer direct loans                   | 1,580                  | 10     | 3     | 5                                  | 2      | 20                     |                        |                    | 1,600                                       |
| Credit cards                            | 785                    | 6      | 4     | 9                                  | 2      | 21                     |                        |                    | 806   |
| Consumer indirect loans                 | 601                    | 9      | 4     | 1                                  | 6      | 20                     |                        |                    | 621   |
| Total consumer loans                    |                        |        |       |                                    |        |                        |                        |                    |   |
|   | \$ 15,171              | \$ 89  | \$ 38 | \$ 31                              | \$ 264 | \$ 422                 | \$ 11                  |                    | \$ 15,604                                   |
| Total loans                             |                        |        |       |                                    |        |                        |                        |                    |   |
|   | \$ 59,198              | \$ 142 | \$ 66 | \$ 72                              | \$ 387 | \$ 667                 | \$ 11                  |                    | \$ 59,876                                   |

| March 31, 2015<br><i>in millions</i>   | 30-59<br>Days Past Due |       |       | 90 and<br>Greater<br>Days Past Due |        | Nonperforming<br>Loans | Nonperforming<br>Loans | Credit<br>Impaired | Total<br>Past<br>Due and Purchased<br>Loans |
|--|------------------------|-------|-------|------------------------------------|--------|------------------------|------------------------|--------------------|---|
|  | Current                | Due   | Due   | Due                                | Due    |                        |                        |                    |   |
| <b>LOAN TYPE</b>                       |                        |       |       |                                    |        |                        |                        |                    |   |
| Commercial, financial and agricultural | \$ 28,603              | \$ 36 | \$ 11 | \$ 35                              | \$ 98  | \$ 180                 |                        |                    | \$ 28,783                                   |
| Commercial real estate:                |                        |       |       |                                    |        |                        |                        |                    |   |
| Commercial mortgage                    | 8,080                  | 5     | 18    | 29                                 | 30     | 82                     |                        |                    | 8,162                                       |
| Construction                           | 1,114                  | 10    | 4     | 2                                  | 12     | 28                     |                        |                    | 1,142                                       |
| Total commercial real estate loans     |                        |       |       |                                    |        |                        |                        |                    |   |
|  | 9,194                  | 15    | 22    | 31                                 | 42     | 110                    |                        |                    | 9,304                                       |
| Commercial lease financing             | 4,017                  | 9     | 6     | 12                                 | 20     | 47                     |                        |                    | 4,064                                       |
| Total commercial loans                 |                        |       |       |                                    |        |                        |                        |                    |   |
|  | \$ 41,814              | \$ 60 | \$ 39 | \$ 78                              | \$ 160 | \$ 337                 |                        |                    | \$ 42,151                                   |

|                                  |           |        |       |        |        |        |       |           |
|----------------------------------|-----------|--------|-------|--------|--------|--------|-------|-----------|
| Real estate residential mortgage | \$ 2,129  | \$ 12  | \$ 5  | \$ 2   | \$ 72  | \$ 91  | \$ 11 | \$ 2,231  |
| Home equity loans                | 10,250    | 43     | 24    | 14     | 191    | 272    | 1     | 10,523    |
| Consumer direct loans            | 1,527     | 8      | 4     | 6      | 2      | 20     |       | 1,547     |
| Credit cards                     | 708       | 5      | 3     | 9      | 2      | 19     |       | 727       |
| Consumer indirect loans          | 749       | 9      | 4     | 2      | 10     | 25     |       | 774       |
| Total consumer loans             | \$ 15,363 | \$ 77  | \$ 40 | \$ 33  | \$ 277 | \$ 427 | \$ 12 | \$ 15,802 |
| Total loans                      | \$ 57,177 | \$ 137 | \$ 79 | \$ 111 | \$ 437 | \$ 764 | \$ 12 | \$ 57,953 |

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 regulatory risk ratings 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.

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Credit quality indicators for our commercial and consumer loan portfolios, excluding \$11 million and \$12 million of PCI loans at March 31, 2016, and March 31, 2015, respectively, based on regulatory classification and payment activity as of March 31, 2016, and March 31, 2015, are as follows:

**Commercial Credit Exposure****Credit Risk Profile by Creditworthiness Category** <sup>(a)</sup> <sup>(b)</sup>

| <i>in millions</i>       | Commercial, financial and agricultural |                   |                | RE Commercial  |                   | RE Construction |                |                   |                |
|--------------------------|--|-------------------|----------------|----------------|-------------------|-----------------|----------------|-------------------|----------------|
|                          | March 31, 2016                         | December 31, 2015 | March 31, 2015 | March 31, 2016 | December 31, 2015 | March 31, 2015  | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| <b>RATING</b>            |  |                   |                |                |                   |                 |                |                   |                |
| Pass                     | \$ 30,335                              | \$ 29,921         | \$ 27,886      | \$ 8,176       | \$ 7,800          | \$ 7,937        | \$ 796         | \$ 1,007          | \$ 1,120       |
| Criticized (Accruing)    | 1,260                                  | 1,236             | 798            | 172            | 139               | 195             | 33             | 37                | 10             |
| Criticized (Nonaccruing) | 381                                    | 83                | 99             | 16             | 20                | 30              | 12             | 9                 | 12             |
| Total                    | \$ 31,976                              | \$ 31,240         | \$ 28,783      | \$ 8,364       | \$ 7,959          | \$ 8,162        | \$ 841         | \$ 1,053          | \$ 1,142       |

| <b>RATING</b>            | Commercial Lease |                   |                | Total          |                   |                |
|--------------------------|------------------|-------------------|----------------|----------------|-------------------|----------------|
|                          | March 31, 2016   | December 31, 2015 | March 31, 2015 | March 31, 2016 | December 31, 2015 | March 31, 2015 |
| Pass                     | \$ 3,878         | \$ 3,967          | \$ 3,996       | \$ 43,185      | \$ 42,695         | \$ 40,939      |
| Criticized (Accruing)    | 45               | 38                | 48             | 1,510          | 1,450             | 1,051          |
| Criticized (Nonaccruing) | 11               | 15                | 20             | 420            | 127               | 161            |
| Total                    | \$ 3,934         | \$ 4,020          | \$ 4,064       | \$ 45,115      | \$ 44,272         | \$ 42,151      |

- (a) Credit quality indicators are updated on an ongoing basis and reflect credit quality information as of the dates indicated.
- (b) The term criticized refers to those loans that are internally classified by Key as special mention or worse, which are 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****Credit Risk Profile by Regulatory Classifications** <sup>(a)</sup> <sup>(b)</sup>**Residential Prime**

| GRADE        | March            | December 31, 2015 | March 31, 2015   |
|--------------|------------------|-------------------|------------------|
|              | 31, 2016         |                   |                  |
| Pass         | \$ 12,107        | \$ 12,296         | \$ 12,463        |
| Substandard  | 265              | 270               | 279              |
| <b>Total</b> | <b>\$ 12,372</b> | <b>\$ 12,566</b>  | <b>\$ 12,742</b> |

#### Credit Risk Profile Based on Payment Activity (a)

| <i>in millions</i> | Consumer direct loans |                   |                 | Credit cards   |                   |                | Consumer indirect loans |                   |                |
|--------------------|-----------------------|-------------------|-----------------|----------------|-------------------|----------------|-------------------------|-------------------|----------------|
|                    | March 31, 2016        | December 31, 2015 | March 31, 2015  | March 31, 2016 | December 31, 2015 | March 31, 2015 | March 31, 2016          | December 31, 2015 | March 31, 2015 |
| Performing         | \$ 1,578              | \$ 1,598          | \$ 1,545        | \$ 780         | \$ 804            | \$ 725         | \$ 575                  | \$ 615            | \$ 764         |
| Nonperforming      | 1                     | 2                 | 2               | 2              | 2                 | 2              | 4                       | 6                 | 10             |
| <b>Total</b>       | <b>\$ 1,579</b>       | <b>\$ 1,600</b>   | <b>\$ 1,547</b> | <b>\$ 782</b>  | <b>\$ 806</b>     | <b>\$ 727</b>  | <b>\$ 579</b>           | <b>\$ 621</b>     | <b>\$ 774</b>  |

|               | March 31, 2016  | Total December 31, 2015 | March 31, 2015  |
|---------------|-----------------|-------------------------|-----------------|
|               | Performing      | \$ 2,933                | \$ 3,017        |
| Nonperforming | 7               | 10                      | 14              |
| <b>Total</b>  | <b>\$ 2,940</b> | <b>\$ 3,027</b>         | <b>\$ 3,048</b> |

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

(b) Our past due payment activity to regulatory classification conversion is as follows: pass = less than 90 days; and substandard = 90 days and greater plus nonperforming loans.

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 122 of our 2015 Form 10-K. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of qualitative factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of \$2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific



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allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Non-Chapter 7 consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the loan's effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at March 31, 2016, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

Commercial loans generally are charged off in full or charged down to the fair value of the underlying collateral when the borrower's payment is 180 days past due. Consumer loans generally are charged off when payments are 120 days past due. Home equity and residential mortgage loans generally are charged down to net realizable value when payment is 180 days past due. Credit card loans, and similar unsecured products, are charged off when payments are 180 days past due.

At March 31, 2016, the ALLL was \$826 million, or 1.37% of loans, compared to \$794 million, or 1.37% of loans, at March 31, 2015. At March 31, 2016, the ALLL was 122.2% of nonperforming loans, compared to 181.7% at March 31, 2015.

A summary of the changes in the ALLL for the periods indicated is presented in the table below:

| <i>in millions</i>   | <b>Three months ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2016</b>                         | <b>2015</b> |
| Balance at beginning of period continuing operations           | \$ 796                              | \$ 794      |
| Charge-offs  | (60)                                | (47)        |
| Recoveries   | 14                                  | 19          |
| Net loans and leases charged off                               | (46)                                | (28)        |
| Provision for loan and lease losses from continuing operations | 76                                  | 29          |
| Foreign currency translation adjustment                        |                                     | (1)         |
| Balance at end of period continuing operations                 | \$ 826                              | \$ 794      |

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

| <i>in millions</i>                     | <b>December 31,</b> |                  |                    |                   | <b>March 31,</b> |
|--|---------------------|------------------|--------------------|-------------------|------------------|
|  | <b>2015</b>         | <b>Provision</b> | <b>Charge-offs</b> | <b>Recoveries</b> | <b>2016</b>      |
| Commercial, financial and agricultural | \$ 450              | \$ 50            | \$ (26)            | \$ 3              | \$ 477           |
| Real estate commercial mortgage        | 134                 |                  | (1)                | 2                 | 135              |

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|   |               |                         |                |              |               |
|---|---------------|-------------------------|----------------|--------------|---------------|
| Real estate construction                            | 25            | (3)                     |                | 1            | 23            |
| Commercial lease financing                          | 47            | (1)                     | (3)            |              | 43            |
| <b>Total commercial loans</b>                       | <b>656</b>    | <b>46</b>               | <b>(30)</b>    | <b>6</b>     | <b>678</b>    |
| Real estate residential mortgage                    | 18            | 2                       | (2)            | 2            | 20            |
| Home equity loans                                   | 57            | 14                      | (10)           | 3            | 64            |
| Consumer direct loans                               | 20            | 5                       | (6)            | 1            | 20            |
| Credit cards  | 32            | 6                       | (8)            | 1            | 31            |
| Consumer indirect loans                             | 13            | 3                       | (4)            | 1            | 13            |
| <b>Total consumer loans</b>                         | <b>140</b>    | <b>30</b>               | <b>(30)</b>    | <b>8</b>     | <b>148</b>    |
| <b>Total ALLL continuing operations</b>             | <b>796</b>    | <b>76<sup>(a)</sup></b> | <b>(60)</b>    | <b>14</b>    | <b>826</b>    |
| Discontinued operations                             | 28            | 2                       | (9)            | 3            | 24            |
| <b>Total ALLL including discontinued operations</b> | <b>\$ 824</b> | <b>\$ 78</b>            | <b>\$ (69)</b> | <b>\$ 17</b> | <b>\$ 850</b> |

(a) Excludes a provision for losses on lending-related commitments of \$13 million.

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| <i>in millions</i>                                  | December 31,  |                         |                | March 31,    |               |  |
|---|---------------|-------------------------|----------------|--------------|---------------|--|
|   | 2014          | Provision               | Charge-offs    | Recoveries   | 2015          |  |
| Commercial, financial and agricultural              | \$ 391        | \$ 21                   | \$ (12)        | \$ 5         | \$ 405        |  |
| Real estate commercial mortgage                     | 148           |                         | (2)            | 2            | 148           |  |
| Real estate construction                            | 28            | 1                       | (1)            |              | 28            |  |
| Commercial lease financing                          | 56            | (3)                     | (2)            | 4            | 55            |  |
| <b>Total commercial loans</b>                       | <b>623</b>    | <b>19</b>               | <b>(17)</b>    | <b>11</b>    | <b>636</b>    |  |
| Real estate residential mortgage                    | 23            |                         | (2)            |              | 21            |  |
| Home equity loans                                   | 71            | (3)                     | (8)            | 3            | 63            |  |
| Consumer direct loans                               | 22            | 3                       | (6)            | 2            | 21            |  |
| Credit cards  | 33            | 7                       | (8)            |              | 32            |  |
| Consumer indirect loans                             | 22            | 2                       | (6)            | 3            | 21            |  |
| <b>Total consumer loans</b>                         | <b>171</b>    | <b>9</b>                | <b>(30)</b>    | <b>8</b>     | <b>158</b>    |  |
| <b>Total ALLL continuing operations</b>             | <b>794</b>    | <b>28<sup>(a)</sup></b> | <b>(47)</b>    | <b>19</b>    | <b>794</b>    |  |
| Discontinued operations                             | 29            | 2                       | (10)           | 4            | 25            |  |
| <b>Total ALLL including discontinued operations</b> | <b>\$ 823</b> | <b>\$ 30</b>            | <b>\$ (57)</b> | <b>\$ 23</b> | <b>\$ 819</b> |  |

(a) Includes a \$1 million foreign currency translation adjustment. Excludes provision for losses on lending-related commitments of \$6 million.

Our ALLL from continuing operations increased by \$32 million, or 4%, from the first quarter of 2015. Our allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors, such as changes in economic conditions, underwriting standards, and concentrations of credit. Our commercial ALLL increased by \$42 million, or 6.6%, from the first quarter of 2015 primarily because of loan growth and increased incurred loss estimates. The increase in these incurred loss estimates during 2015 was primarily due to the continued decline in oil and gas prices since 2014. Partially offsetting this increase was a decrease in our consumer ALLL of \$10 million, or 6.3%, from the first quarter of 2015. Our consumer ALLL decrease was primarily due to continued improvement in credit metrics, such as delinquency, average credit bureau score, and loan to value, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics from the first quarter of 2015 was primarily due to continued improved credit quality and benefits of relatively stable economic conditions.

For continuing operations, the loans outstanding individually evaluated for impairment totaled \$607 million, with a corresponding allowance of \$54 million at March 31, 2016. Loans outstanding collectively evaluated for impairment totaled \$59.8 billion, with a corresponding allowance of \$771 million at March 31, 2016. At March 31, 2016, PCI loans evaluated for impairment totaled \$11 million, with a corresponding allowance of \$1 million. There was no provision for loan and lease losses on these PCI loans during the quarter ended March 31, 2016. At March 31, 2015, the loans outstanding individually evaluated for impairment totaled \$338 million, with a corresponding allowance of \$49 million. Loans outstanding collectively evaluated for impairment totaled \$57.6 billion, with a corresponding allowance of \$744 million at March 31, 2015. At March 31, 2015, PCI loans evaluated for impairment totaled \$12 million, with a corresponding allowance of \$1 million. There was no provision for loan and lease losses on these PCI loans during the quarter ended March 31, 2015.



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A breakdown of the individual and collective ALLL and the corresponding loan balances as of March 31, 2016, follows:

| March 31, 2016<br><i>in millions</i>         | Allowance                                   |   |                                 | Loans     | Outstanding                                 |   | Purchased<br>Credit<br>Impaired |
|--|---|---|---------------------------------|-----------|---|---|---------------------------------|
|  | Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment | Purchased<br>Credit<br>Impaired |           | Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment |                                 |
| Commercial, financial and agricultural       | \$ 28                                       | \$ 449                                      |                                 | \$ 31,976 | \$ 361                                      | \$ 31,615                                   |                                 |
| Commercial real estate:                      |   |   |                                 |           |   |   |                                 |
| Commercial mortgage                          | 1   | 134   |                                 | 8,364     | 8   | 8,356                                       |                                 |
| Construction                                 |   | 23  |                                 | 841       | 8   | 833   |                                 |
| Total commercial real estate loans           | 1   | 157   |                                 | 9,205     | 16  | 9,189                                       |                                 |
| Commercial lease financing                   |   | 43  |                                 | 3,934     |   | 3,934                                       |                                 |
| Total commercial loans                       | 29  | 649   |                                 | 45,115    | 377   | 44,738                                      |                                 |
| Real estate residential mortgage             | 3   | 16  | \$ 1                            | 2,234     | 55  | 2,169                                       | \$ 10                           |
| Home equity loans                            | 19  | 45  |                                 | 10,149    | 133   | 10,015                                      | 1                               |
| Consumer direct loans                        |   | 20  |                                 | 1,579     | 3   | 1,576                                       |                                 |
| Credit cards                                 |   | 31  |                                 | 782       | 3   | 779   |                                 |
| Consumer indirect loans                      | 3   | 10  |                                 | 579       | 36  | 543   |                                 |
| Total consumer loans                         | 25  | 122   | 1                               | 15,323    | 230   | 15,082                                      | 11                              |
| Total ALLL continuing operations             | 54  | 771   | 1                               | 60,438    | 607   | 59,820                                      | 11                              |
| Discontinued operations                      | 2   | 22  |                                 | 1,760(a)  | 21  | 1,739(a)                                    |                                 |
| Total ALLL including discontinued operations | \$ 56                                       | \$ 793                                      | \$ 1                            | \$ 62,198 | \$ 628                                      | \$ 61,559                                   | \$ 11                           |

(a) Amount includes \$3 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, 2015, follows:

| December 31, 2015<br><i>in millions</i> | Allowance                                   |   |                                 | Loans | Outstanding                                 |   | Purchased<br>Credit<br>Impaired |
|---|---|---|---------------------------------|-------|---|---|---------------------------------|
|   | Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment | Purchased<br>Credit<br>Impaired |       | Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment |                                 |

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|  |       |        |      |           |        |           |       |
|--|-------|--------|------|-----------|--------|-----------|-------|
| Commercial, financial and agricultural       | \$ 7  | \$ 443 |      | \$ 31,240 | \$ 68  | \$ 31,172 |       |
| Commercial real estate:                      |       |        |      |           |        |           |       |
| Commercial mortgage                          | 1     | 133    |      | 7,959     | 10     | 7,949     |       |
| Construction                                 |       | 25     |      | 1,053     | 5      | 1,048     |       |
| Total commercial real estate loans           | 1     | 158    |      | 9,012     | 15     | 8,997     |       |
| Commercial lease financing                   |       | 47     |      | 4,020     |        | 4,020     |       |
| Total commercial loans                       | 8     | 648    |      | 44,272    | 83     | 44,189    |       |
| Real estate residential mortgage             | 4     | 13     | \$ 1 | 2,242     | 56     | 2,176     | \$ 10 |
| Home equity loans                            | 20    | 37     |      | 10,335    | 125    | 10,209    | 1     |
| Consumer direct loans                        |       | 20     |      | 1,600     | 3      | 1,597     |       |
| Credit cards                                 |       | 32     |      | 806       | 3      | 803       |       |
| Consumer indirect loans                      | 3     | 10     |      | 621       | 38     | 583       |       |
| Total consumer loans                         | 27    | 112    | 1    | 15,604    | 225    | 15,368    | 11    |
| Total ALLL continuing operations             | 35    | 760    | 1    | 59,876    | 308    | 59,557    | 11    |
| Discontinued operations                      | 2     | 26     |      | 1,828(a)  | 21     | 1,807(a)  |       |
| Total ALLL including discontinued operations | \$ 37 | \$ 786 | \$ 1 | \$ 61,704 | \$ 329 | \$ 61,364 | \$ 11 |

(a) Amount includes \$4 million of loans carried at fair value that are excluded from ALLL consideration.

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of March 31, 2015, follows:

| March 31, 2015<br><i>in millions</i>         | Allowance                                   |   |                                 | Loans                | Outstanding                                 |   | Purchased<br>Credit<br>Impaired |
|--|---|---|---------------------------------|----------------------|---|---|---------------------------------|
|  | Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment | Purchased<br>Credit<br>Impaired |                      | Individually<br>Evaluated for<br>Impairment | Collectively<br>Evaluated for<br>Impairment |                                 |
| Commercial, financial and agricultural       | \$ 20                                       | \$ 385                                      |                                 | \$ 28,783            | \$ 82                                       | \$ 28,701                                   |                                 |
| Commercial real estate:                      |   |   |                                 |                      |   |   |                                 |
| Commercial mortgage                          | 2   | 146   |                                 | 8,162                | 20  | 8,142                                       |                                 |
| Construction                                 |   | 28  |                                 | 1,142                | 7   | 1,135                                       |                                 |
| Total commercial real estate loans           | 2   | 174   |                                 | 9,304                | 27  | 9,277                                       |                                 |
| Commercial lease financing                   |   | 55  |                                 | 4,064                |   | 4,064                                       |                                 |
| Total commercial loans                       | 22  | 614   |                                 | 42,151               | 109   | 42,042                                      |                                 |
| Real estate residential mortgage             | 5   | 15  | \$ 1                            | 2,231                | 55  | 2,165                                       | \$ 11                           |
| Home equity loans                            | 18  | 45  |                                 | 10,523               | 123   | 10,399                                      | 1                               |
| Consumer direct loans                        |   | 21  |                                 | 1,547                | 3   | 1,544                                       |                                 |
| Credit cards                                 |   | 32  |                                 | 727                  | 4   | 723   |                                 |
| Consumer indirect loans                      | 4   | 17  |                                 | 774                  | 44  | 730   |                                 |
| Total consumer loans                         | 27  | 130   | 1                               | 15,802               | 229   | 15,561                                      | 12                              |
| Total ALLL continuing operations             | 49  | 744   | 1                               | 57,953               | 338   | 57,603                                      | 12                              |
| Discontinued operations                      | 1   | 24  |                                 | 2,219 <sup>(a)</sup> | 18  | 2,201 <sup>(a)</sup>                        |                                 |
| Total ALLL including discontinued operations | \$ 50                                       | \$ 768                                      | \$ 1                            | \$ 60,172            | \$ 356                                      | \$ 59,804                                   | \$ 12                           |

(a) Amount includes \$187 million of loans carried at fair value that are excluded from ALLL consideration. The liability for credit losses inherent in lending-related unfunded 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. Our liability for credit losses on lending-related commitments was \$69 million at March 31, 2016. When combined with our ALLL, our total allowance for credit losses represented 1.48% of loans at March 31, 2016, compared to 1.44% at March 31, 2015.

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

| <i>in millions</i>   | <b>Three months ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2016</b>                         | <b>2015</b> |
| Balance at beginning of period                               | \$ 56                               | \$ 35       |
| Provision (credit) for losses on lending-related commitments | 13                                  | 6           |
| Balance at end of period                                     | \$ 69                               | \$ 41       |



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**Table of Contents****5. Fair Value Measurements****Fair Value Determination**

As defined in the applicable accounting guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in our principal market. 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 unobservable inputs. Unobservable inputs may be based on our judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

Valuation adjustments, such as those pertaining to counterparty and our own credit quality and liquidity, may be necessary to ensure that assets and liabilities are recorded at fair value. Credit valuation adjustments are made when market pricing does not accurately reflect the counterparty's or our own credit quality. 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 and in Note 11 ( Acquisitions and

Discontinued Operations ). 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 beginning on page 124 of our 2015 Form 10-K.

### **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.

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*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; certain mortgage-backed securities; securities issued by the U.S. Treasury; money markets; and certain agency and corporate CMOs. Inputs to the pricing models include: standard inputs, such as yields, benchmark 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, 2016, our Level 3 instruments consist of two convertible preferred securities. Our 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 impacted by projected net losses of the associated private companies and positively impacted by projected net gains.

The fair values of our Level 2 securities available for sale are determined by a third-party pricing service. 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 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.

***Private equity and mezzanine investments.*** Private equity and mezzanine investments consist of investments in debt and equity securities through our Real Estate Capital line of business. They include direct investments made in specific properties, as well as indirect investments made in funds that pool assets of many investors to invest in properties. There is no active market for these investments, so we employ other valuation methods. The portion of our Real Estate Capital line of business involved with private equity and mezzanine investments is accounted for as an investment company in accordance with the applicable accounting guidance, whereby all investments are recorded at fair value.

Direct private equity and mezzanine investments are classified as Level 3 assets since our judgment significantly influences the determination of fair value. Our Fund Management, Asset Management, and Accounting groups are responsible for reviewing the valuation models and determining the fair value of these investments on a quarterly basis. Direct investments in properties are initially valued based upon the transaction price. This amount is then adjusted to fair value based on current market conditions using the discounted cash flow method based on the expected investment exit date. The fair values of the assets are reviewed and adjusted quarterly. There were no significant direct equity and mezzanine investments at March 31, 2016, and March 31, 2015.

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The fair value of our indirect investments is based on the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment's fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of March 31, 2016, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology. For more information about the Volcker Rule, see the discussion under the heading "Other Regulatory Developments under the Dodd-Frank Act - Volcker Rule" in the section entitled "Supervision and Regulation" beginning on page 17 of our 2015 Form 10-K.

Investments in real estate private equity funds are included within private equity and mezzanine investments. The main purpose of these funds is to acquire a portfolio of real estate investments that provides attractive risk-adjusted returns and current income for investors. Certain of these investments do not have readily determinable fair values and represent our ownership interest in an entity that follows measurement principles under investment company accounting.

The following table presents the fair value of our indirect investments and related unfunded commitments at March 31, 2016. We did not provide any financial support to investees related to our direct and indirect investments for the three months ended March 31, 2016, and March 31, 2015.

| <b>March 31, 2016</b><br><i>in millions</i> | <b>Fair Value</b> | <b>Unfunded<br/>Commitments</b> |
|---|-------------------|---------------------------------|
| <b>INVESTMENT TYPE</b>                      |                   |                                 |
| Indirect investments                        |                   |                                 |
| Passive funds <sup>(a)</sup>                | \$ 8              | \$ 1                            |
| Total                                       | \$ 8              | \$ 1                            |

(a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to three years. The purpose of KREEC's funding is to allow funds to make additional investments and keep a certain market value threshold in the funds. KREEC is obligated to provide financial support, as all investors are required, to the funds based on its ownership percentage, as noted in the Limited Partnership Agreements.

**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 a former employee of Key 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 both private and public companies. When quoted prices are available in an active market for the identical direct investment, we use the quoted prices in the valuation process, and the related investments are classified as Level 1 assets. As of December 31, 2015, the valuation of our Level 2 investment included a quoted price, which was adjusted by liquidity assumptions due to a contractual term of the investment. The contractual term expired and this investment was transferred from Level 2 to Level 1 as of March 31, 2016. 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. The specific inputs used in the valuations of each type of direct investment are described below.

Interest-bearing securities (i.e., loans) are valued on a quarterly basis. Valuation adjustments are determined by the Principal Investing Entities Deal Team and are subject to approval by the Investment Committee. Valuations of debt instruments are based on the Principal Investing Entities Deal Team's knowledge of the current financial status of the subject company, which is regularly monitored throughout the term of the investment. Significant unobservable inputs used in the valuations of these investments include the company's payment history, adequacy of cash flows from operations, and current operating results, including market multiples and historical and forecast EBITDA. Inputs can also include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected, and the net liquidation value of collateral.

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Valuations of equity instruments of private companies, which are prepared on a quarterly basis, are based on current market conditions and the current financial status of each company. A valuation analysis is performed to value each investment. The valuation analysis is reviewed by the Principal Investing Entities Deal Team Member, and reviewed and approved by the Chief Administrative Officer of one of the independent investment managers. Significant unobservable inputs used in these valuations include adequacy of the company's cash flows from operations, any significant change in the company's performance since the prior valuation, and any significant equity issuances by the company. Equity instruments of public companies are valued using quoted prices in an active market for the identical security. If the instrument is restricted, the fair value is determined considering the number of shares traded daily, the number of the company's total restricted shares, and price volatility.

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 that allows 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. At March 31, 2016, one of our indirect investments was identified for sale, and management has committed to a plan to sell this identified investment. It is probable that we will sell this investment for an amount different from its net asset value. The investment is valued at its probable sale price as of March 31, 2016. The remaining investments continue to be valued using the net asset value per share methodology.

For indirect investments, management may make adjustments it deems appropriate to the net asset value if it is determined that the net asset value does not properly reflect fair value. In determining the need for an adjustment to net asset value, management performs an analysis of the private equity funds based on the independent fund manager's valuations as well as management's own judgment. Management also considers whether the independent fund manager adequately marks down an impaired investment, maintains financial statements in accordance with GAAP, or follows a practice of holding all investments at cost.

The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at March 31, 2016, as well as financial support provided for the three months ended March 31, 2016, and March 31, 2015.

| <i>in millions</i>                                    | March 31, 2016 |                      | Financial support provided<br>Three months ended March 31, |              |                    |              |
|---|----------------|----------------------|--|--------------|--------------------|--------------|
|   | Fair Value     | Unfunded Commitments | 2016   | 2016         | 2015               | 2015         |
| INVESTMENT TYPE                                       |                |                      | Funded Commitments   | Funded Other | Funded Commitments | Funded Other |
| Direct investments <sup>(a)</sup>                     | \$ 61          |                      |  | \$ 13        |                    | \$ 3         |
| Indirect investments (measured at NAV) <sup>(b)</sup> | 211            | \$ 47                | \$ 1   |              | \$ 2               |              |
| Other indirect investment <sup>(b)</sup>              | 18             | 3                    |  |              |                    |              |
| <b>Total</b>  | <b>\$ 290</b>  | <b>\$ 50</b>         | <b>\$ 1</b>  | <b>\$ 13</b> | <b>\$ 2</b>        | <b>\$ 3</b>  |

- (a) 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 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.
- (b) 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 general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to eight 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.** We had one indirect equity investment in the form of limited partnership units representing less than a five percent ownership interest in the entity's equity. The fair value of this investment was based upon the NAV accounting methodology. Under the requirements of the Volcker Rule, we were required to dispose of this investment. Prior to December 31, 2015, this investment was redeemed.



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**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, yield curves, LIBOR and Overnight Index Swap (OIS) 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). These derivative contracts, which are classified as Level 2 instruments, include interest rate swaps, certain options, cross currency swaps, and credit default swaps.

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

Market convention implies a credit rating of AA equivalent in the pricing of derivative contracts, which assumes 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 corporate 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.

**Other assets and liabilities.** The value of our short positions is driven by the valuation of the underlying securities. If quoted prices for identical securities are not available, fair value is determined by using pricing models or quoted prices of similar securities, resulting in a Level 2 classification. For the interest rate-driven products, such as government bonds, U.S. Treasury bonds and other products backed by the U.S. government, inputs include spreads, credit ratings, and interest rates. For the credit-driven products, such as corporate bonds and mortgage-backed securities, inputs include actual trade data for comparable assets and bids and offers.

**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, 2016, December 31, 2015, and March 31, 2015.



**Table of Contents****March 31, 2016***in millions*

|   | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>ASSETS MEASURED ON A RECURRING BASIS</b>     |         |           |         |           |
| Trading account assets:                         |         |           |         |           |
| U.S. Treasury, agencies and corporations        |         | \$ 636    |         | \$ 636    |
| States and political subdivisions               |         | 26        |         | 26        |
| Collateralized mortgage obligations             |         |           |         |           |
| Other mortgage-backed securities                |         | 64        |         | 64        |
| Other securities                                |         | 37        |         | 37        |
| Total trading account securities                |         | 763       |         | 763       |
| Commercial loans                                |         | 2         |         | 2         |
| Total trading account assets                    |         | 765       |         | 765       |
| Securities available for sale:                  |         |           |         |           |
| States and political subdivisions               |         | 13        |         | 13        |
| Collateralized mortgage obligations             |         | 12,161    |         | 12,161    |
| Other mortgage-backed securities                |         | 2,110     |         | 2,110     |
| Other securities                                | \$ 3    |           | \$ 17   | 20        |
| Total securities available for sale             | 3       | 14,284    | 17      | 14,304    |
| Other investments:                              |         |           |         |           |
| Principal investments:                          |         |           |         |           |
| Direct  | 14      |           | 47      | 61        |
| Indirect (measured at NAV) <sup>(a)</sup>       |         |           |         | 211       |
| Other indirect                                  |         |           | 18      | 18        |
| Total principal investments                     | 14      |           | 65      | 290       |
| Equity and mezzanine investments:               |         |           |         |           |
| Indirect (measured at NAV) <sup>(a)</sup>       |         |           |         | 8         |
| Total equity and mezzanine investments          |         |           |         | 8         |
| Total other investments                         | 14      |           | 65      | 298       |
| Derivative assets:                              |         |           |         |           |
| Interest rate                                   |         | 1,328     | 16      | 1,344     |
| Foreign exchange                                | 103     | 13        |         | 116       |
| Commodity                                       |         | 347       |         | 347       |
| Credit  |         | 1         | 2       | 3         |
| Derivative assets                               | 103     | 1,689     | 18      | 1,810     |
| Netting adjustments <sup>(b)</sup>              |         |           |         | (745)     |
| Total derivative assets                         | 103     | 1,689     | 18      | 1,065     |
| Accrued income and other assets                 |         | 1         |         | 1         |
| Total assets on a recurring basis at fair value | \$ 120  | \$ 16,739 | \$ 100  | \$ 16,433 |

**LIABILITIES MEASURED ON A RECURRING BASIS**

Bank notes and other short-term borrowings:

|                 |      |        |        |
|-----------------|------|--------|--------|
| Short positions | \$ 9 | \$ 605 | \$ 614 |
|-----------------|------|--------|--------|

Derivative liabilities:

|               |  |     |     |
|---------------|--|-----|-----|
| Interest rate |  | 797 | 797 |
|---------------|--|-----|-----|

|                  |     |    |     |
|------------------|-----|----|-----|
| Foreign exchange | 108 | 11 | 119 |
|------------------|-----|----|-----|

|           |  |     |     |
|-----------|--|-----|-----|
| Commodity |  | 334 | 334 |
|-----------|--|-----|-----|

|        |  |   |   |
|--------|--|---|---|
| Credit |  | 5 | 5 |
|--------|--|---|---|

|                        |     |       |       |
|------------------------|-----|-------|-------|
| Derivative liabilities | 108 | 1,147 | 1,255 |
|------------------------|-----|-------|-------|

|                                    |  |  |       |
|------------------------------------|--|--|-------|
| Netting adjustments <sup>(b)</sup> |  |  | (465) |
|------------------------------------|--|--|-------|

|                              |     |       |     |
|------------------------------|-----|-------|-----|
| Total derivative liabilities | 108 | 1,147 | 790 |
|------------------------------|-----|-------|-----|

|                                       |  |   |   |
|---------------------------------------|--|---|---|
| Accrued expense and other liabilities |  | 2 | 2 |
|---------------------------------------|--|---|---|

|  |        |          |          |
|--|--------|----------|----------|
| Total liabilities on a recurring basis at fair value | \$ 117 | \$ 1,754 | \$ 1,406 |
|--|--------|----------|----------|

- (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 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.

**Table of Contents****December 31, 2015***in millions*

|   | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>ASSETS MEASURED ON A RECURRING BASIS</b>     |         |           |         |           |
| Trading account assets:                         |         |           |         |           |
| U.S. Treasury, agencies and corporations        |         | \$ 704    |         | \$ 704    |
| States and political subdivisions               |         | 25        |         | 25        |
| Collateralized mortgage obligations             |         |           |         |           |
| Other mortgage-backed securities                |         | 26        |         | 26        |
| Other securities                                | \$ 3    | 24        |         | 27        |
| Total trading account securities                | 3       | 779       |         | 782       |
| Commercial loans                                |         | 6         |         | 6         |
| Total trading account assets                    | 3       | 785       |         | 788       |
| Securities available for sale:                  |         |           |         |           |
| States and political subdivisions               |         | 14        |         | 14        |
| Collateralized mortgage obligations             |         | 11,995    |         | 11,995    |
| Other mortgage-backed securities                |         | 2,189     |         | 2,189     |
| Other securities                                | 3       |           | \$ 17   | 20        |
| Total securities available for sale             | 3       | 14,198    | 17      | 14,218    |
| Other investments:                              |         |           |         |           |
| Principal investments:                          |         |           |         |           |
| Direct  |         | 19        | 50      | 69        |
| Indirect (measured at NAV) <sup>(a)</sup>       |         |           |         | 235       |
| Total principal investments                     |         | 19        | 50      | 304       |
| Equity and mezzanine investments:               |         |           |         |           |
| Indirect (measured at NAV) <sup>(a)</sup>       |         |           |         | 8         |
|   |         |           |         | 8         |
| Total other investments                         |         | 19        | 50      | 312       |
| Derivative assets:                              |         |           |         |           |
| Interest rate                                   |         | 868       | 16      | 884       |
| Foreign exchange                                | 143     | 8         |         | 151       |
| Commodity                                       |         | 444       |         | 444       |
| Credit  |         | 4         | 2       | 6         |
| Derivative assets                               | 143     | 1,324     | 18      | 1,485     |
| Netting adjustments <sup>(b)</sup>              |         |           |         | (866)     |
| Total derivative assets                         | 143     | 1,324     | 18      | 619       |
| Accrued income and other assets                 |         | 1         |         | 1         |
| Total assets on a recurring basis at fair value | \$ 149  | \$ 16,327 | \$ 85   | \$ 15,938 |

**LIABILITIES MEASURED ON A RECURRING BASIS**

|  |        |          |      |          |
|--|--------|----------|------|----------|
| Bank notes and other short-term borrowings:          |        |          |      |          |
| Short positions                                      |        | \$ 533   |      | \$ 533   |
| Derivative liabilities:                              |        |          |      |          |
| Interest rate  |        | 563      |      | 563      |
| Foreign exchange                                     | \$ 116 | 8        |      | 124      |
| Commodity  |        | 433      |      | 433      |
| Credit   |        | 5        | \$ 1 | 6        |
| Derivative liabilities                               | 116    | 1,009    | 1    | 1,126    |
| Netting adjustments <sup>(b)</sup>                   |        |          |      | (494)    |
| Total derivative liabilities                         | 116    | 1,009    | 1    | 632      |
| Accrued expense and other liabilities                |        | 1        |      | 1        |
| Total liabilities on a recurring basis at fair value | \$ 116 | \$ 1,543 | \$ 1 | \$ 1,166 |

- (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 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.

**Table of Contents****March 31, 2015***in millions*

|   | Level 1 | Level 2   | Level 3 | Total     |
|---|---------|-----------|---------|-----------|
| <b>ASSETS MEASURED ON A RECURRING BASIS</b>     |         |           |         |           |
| Trading account assets:                         |         |           |         |           |
| U.S. Treasury, agencies and corporations        |         | \$ 668    |         | \$ 668    |
| States and political subdivisions               |         | 35        |         | 35        |
| Collateralized mortgage obligations             |         |           |         |           |
| Other mortgage-backed securities                |         | 51        |         | 51        |
| Other securities                                | \$ 5    | 25        |         | 30        |
| Total trading account securities                | 5       | 779       |         | 784       |
| Commercial loans                                |         | 5         |         | 5         |
| Total trading account assets                    | 5       | 784       |         | 789       |
| Securities available for sale:                  |         |           |         |           |
| States and political subdivisions               |         | 22        |         | 22        |
| Collateralized mortgage obligations             |         | 11,163    |         | 11,163    |
| Other mortgage-backed securities                |         | 1,902     |         | 1,902     |
| Other securities                                | 23      |           | \$ 10   | 33        |
| Total securities available for sale             | 23      | 13,087    | 10      | 13,120    |
| Other investments:                              |         |           |         |           |
| Principal investments:                          |         |           |         |           |
| Direct  | 1       |           | 73      | 74        |
| Indirect (measured at NAV) <sup>(a)</sup>       |         |           |         | 301       |
| Total principal investments                     | 1       |           | 73      | 375       |
| Equity and mezzanine investments:               |         |           |         |           |
| Indirect (measured at NAV) <sup>(a)</sup>       |         |           |         | 9         |
| Total equity and mezzanine investments          |         |           |         | 9         |
| Other (measured at NAV) <sup>(a)</sup>          |         |           |         | 4         |
| Total other investments                         | 1       |           | 73      | 388       |
| Derivative assets:                              |         |           |         |           |
| Interest rate                                   |         | 1,034     | 10      | 1,044     |
| Foreign exchange                                | 164     | 8         |         | 172       |
| Commodity                                       |         | 581       |         | 581       |
| Credit  |         | 2         | 3       | 5         |
| Derivative assets                               | 164     | 1,625     | 13      | 1,802     |
| Netting adjustments <sup>(b)</sup>              |         |           |         | (1,071)   |
| Total derivative assets                         | 164     | 1,625     | 13      | 731       |
| Accrued income and other assets                 |         | 2         |         | 2         |
| Total assets on a recurring basis at fair value | \$ 193  | \$ 15,498 | \$ 96   | \$ 15,030 |

**LIABILITIES MEASURED ON A RECURRING BASIS**

Bank notes and other short-term borrowings:

|                 |  |        |  |        |
|-----------------|--|--------|--|--------|
| Short positions |  | \$ 607 |  | \$ 607 |
|-----------------|--|--------|--|--------|

Derivative liabilities:

|               |  |     |  |     |
|---------------|--|-----|--|-----|
| Interest rate |  | 692 |  | 692 |
|---------------|--|-----|--|-----|

|                  |        |   |  |     |
|------------------|--------|---|--|-----|
| Foreign exchange | \$ 138 | 9 |  | 147 |
|------------------|--------|---|--|-----|

|           |  |     |  |     |
|-----------|--|-----|--|-----|
| Commodity |  | 567 |  | 567 |
|-----------|--|-----|--|-----|

|        |  |   |      |   |
|--------|--|---|------|---|
| Credit |  | 6 | \$ 1 | 7 |
|--------|--|---|------|---|

|                        |     |       |   |       |
|------------------------|-----|-------|---|-------|
| Derivative liabilities | 138 | 1,274 | 1 | 1,413 |
|------------------------|-----|-------|---|-------|

|                                    |  |  |  |       |
|------------------------------------|--|--|--|-------|
| Netting adjustments <sup>(b)</sup> |  |  |  | (588) |
|------------------------------------|--|--|--|-------|

|                              |     |       |   |     |
|------------------------------|-----|-------|---|-----|
| Total derivative liabilities | 138 | 1,274 | 1 | 825 |
|------------------------------|-----|-------|---|-----|

|                                       |  |   |  |   |
|---------------------------------------|--|---|--|---|
| Accrued expense and other liabilities |  | 2 |  | 2 |
|---------------------------------------|--|---|--|---|

|  |        |          |      |          |
|--|--------|----------|------|----------|
| Total liabilities on a recurring basis at fair value | \$ 138 | \$ 1,883 | \$ 1 | \$ 1,434 |
|--|--------|----------|------|----------|

- (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 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.



**Table of Contents****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, 2016, and March 31, 2015. 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.

| <i>in millions</i>                    | Beginning Gains<br>of (Losses)<br>Period Included in<br>Balance |                       | Purchases | Sales  | Settlements | Transfers<br>into<br>Level<br>3 <sup>(d)</sup> | Transfers<br>out<br>of<br>Level 3 <sup>(d)</sup> | Unrealized<br>Gains<br>(Losses)<br>End of<br>Period Included in<br>Balance |
|---------------------------------------|---|-----------------------|-----------|--------|-------------|--|--|--|
|                                       | Earnings  |                       |           |        |             |  |  | Earnings   |
| <b>March 31, 2016</b>                 |   |                       |           |        |             |  |  |  |
| Securities available for sale         |   |                       |           |        |             |  |  |  |
| Other securities                      | \$ 17   |                       |           |        |             |  |  | \$ 17  |
| Other investments                     |   |                       |           |        |             |  |  |  |
| Principal investments                 |   |                       |           |        |             |  |  |  |
| Direct                                | 50  | \$ (3) <sup>(b)</sup> |           |        |             |  |  | 47 \$ (3) <sup>(b)</sup>   |
| Other indirect                        | 20  | (1) <sup>(b)</sup>    |           | \$ (1) |             |  |  | 18 (1) <sup>(b)</sup>  |
| Derivative instruments <sup>(a)</sup> |   |                       |           |        |             |  |  |  |
| Interest rate                         | 16  | 4 <sup>(c)</sup>      |           |        |             | \$ 3 <sup>(e)</sup>                            | \$ (7) <sup>(e)</sup>                            | 16   |
| Commodity                             |   |                       |           |        |             |  |  |  |
| Credit                                | 1   | (2) <sup>(c)</sup>    |           |        | \$ 3        |  |  | 2  |

| <i>in millions</i>                    | Beginning Gains<br>of (Losses)<br>Period Included in<br>Balance |                      | Purchases | Sales   | Settlements | Transfers<br>into<br>Level<br>3 <sup>(d)</sup> | Transfers<br>out<br>of<br>Level 3 <sup>(d)</sup> | Unrealized<br>Gains<br>(Losses)<br>End of<br>Period Included in<br>Balance |
|---------------------------------------|---|----------------------|-----------|---------|-------------|--|--|--|
|                                       | Earnings  |                      |           |         |             |  |  | Earnings   |
| <b>March 31, 2015</b>                 |   |                      |           |         |             |  |  |  |
| Securities available for sale         |   |                      |           |         |             |  |  |  |
| Other securities                      | \$ 10   |                      |           |         |             |  |  | \$ 10  |
| Other investments                     |   |                      |           |         |             |  |  |  |
| Principal investments                 |   |                      |           |         |             |  |  |  |
| Direct                                | 102   | \$ 13 <sup>(b)</sup> | \$ 1      | \$ (43) |             |  |  | 73   |
| Equity and mezzanine<br>investments   |   |                      |           |         |             |  |  |  |
| Direct                                |   | 2 <sup>(b)</sup>     |           | (2)     |             |  |  | 2 <sup>(b)</sup>   |
| Derivative instruments <sup>(a)</sup> |   |                      |           |         |             |  |  |  |
| Interest rate                         | 13  | 2 <sup>(c)</sup>     |           |         |             |  | \$ (5) <sup>(e)</sup>                            | 10   |
| Commodity                             |   |                      |           |         |             |  |  |  |

|        |   |                    |      |   |
|--------|---|--------------------|------|---|
| Credit | 2 | (3) <sup>(c)</sup> | \$ 3 | 2 |
|--------|---|--------------------|------|---|

- (a) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.
- (b) Realized and unrealized gains and losses on principal investments are reported in net gains (losses) from principal investing on the income statement. Realized and unrealized losses on private equity and mezzanine investments are reported in other income on the income statement.
- (c) Realized and unrealized gains and losses on derivative instruments are reported in corporate services income and other income on the income statement.
- (d) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.
- (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) There were no issuances for the three-month periods ended March 31, 2016, and March 31, 2015.

**Table of Contents****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, 2016, December 31, 2015, and March 31, 2015. The following table presents our assets measured at fair value on a nonrecurring basis at March 31, 2016, December 31, 2015, and March 31, 2015:

| <i>in millions</i>                                 | March 31, 2016 |         |         | Total |
|--|----------------|---------|---------|-------|
|  | Level 1        | Level 2 | Level 3 |       |
| <b>ASSETS MEASURED ON A NONRECURRING BASIS</b>     |                |         |         |       |
| Impaired loans                                     |                |         | \$ 25   | \$ 25 |
| Loans held for sale <sup>(a)</sup>                 |                |         |         |       |
| Accrued income and other assets                    |                |         | 5       | 5     |
| Total assets on a nonrecurring basis at fair value |                |         | \$ 30   | \$ 30 |

| <i>in millions</i>                                 | December 31, 2015 |         |         | Total |
|--|-------------------|---------|---------|-------|
|  | Level 1           | Level 2 | Level 3 |       |
| <b>ASSETS MEASURED ON A NONRECURRING BASIS</b>     |                   |         |         |       |
| Impaired loans                                     |                   |         |         |       |
| Loans held for sale <sup>(a)</sup>                 |                   |         |         |       |
| Accrued income and other assets                    |                   |         | \$ 7    | \$ 7  |
| Total assets on a nonrecurring basis at fair value |                   |         | \$ 7    | \$ 7  |

| <i>in millions</i>                                 | March 31, 2015 |         |         | Total |
|--|----------------|---------|---------|-------|
|  | Level 1        | Level 2 | Level 3 |       |
| <b>ASSETS MEASURED ON A NONRECURRING BASIS</b>     |                |         |         |       |
| Impaired loans                                     |                |         | \$ 15   | \$ 15 |
| Loans held for sale <sup>(a)</sup>                 |                |         |         |       |
| Accrued income and other assets                    |                |         | 12      | 12    |
| Total assets on a nonrecurring basis at fair value |                |         | \$ 27   | \$ 27 |

- (a) During the first quarter of 2016, we transferred less than \$1 million of commercial and consumer loans and leases at their current fair value from held-for-sale status to the held-to-maturity portfolio, compared to \$62 million during 2015, and \$10 million during the first quarter of 2015.

**Impaired loans.** We typically 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 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.

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.

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.

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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 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, 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.

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.

***Loans held for sale.*** Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming 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 loans held for sale adjusted to fair value at March 31, 2016, December 31, 2015, or March 31, 2015.

Market inputs, including updated collateral values, and reviews of each borrower's financial condition influenced the inputs used in our internal models and other valuation methodologies. The valuations are prepared by the responsible relationship managers or analysts in our Asset Recovery Group and are reviewed and approved by the Asset Recovery Group Executive. Actual gains or losses realized on the sale of various loans held for sale provide a back-testing mechanism for determining whether our valuations of these loans held for sale that are adjusted to fair value are appropriate.

Valuations of performing commercial mortgage and construction loans held for sale are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves, and risk profiles. These internal models also rely on our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. Therefore, we classify these loans as Level 3 assets. The inputs related to our assumptions and other internal loan data include changes in real estate values, costs of foreclosure, prepayment rates, default rates, and discount rates.

Valuations of nonperforming commercial mortgage and construction loans held for sale are based on current agreements to sell the loans or approved discounted payoffs. If a negotiated value is not available, we use third-party appraisals, adjusted for current market conditions. Since valuations are based on unobservable data, these loans are classified as Level 3 assets.

***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 is distributed to both groups that lists all equipment finance deals booked in the warehouse portfolio. 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 if 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 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 is 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.

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***Goodwill and other intangible assets.*** On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. Accounting guidance permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. However, we did not choose to utilize a qualitative assessment in our annual goodwill impairment testing performed during the fourth quarter of 2015. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (using publicly traded company and recent transactions data), which are weighted equally.

Inputs used include market-available data, such as industry, historical, and expected growth rates, and peer valuations, as well as internally driven inputs, such as forecasted earnings and market participant insights. Since this valuation relies on a significant number of unobservable inputs, we have classified goodwill as Level 3. We use a third-party valuation services provider to perform the annual, and if necessary, any interim, Step 1 valuation process, and to perform a Step 2 analysis, if needed, on our reporting units. Annual and any interim valuations prepared by the third-party valuation services provider are reviewed by the appropriate individuals within Key to ensure that the assumptions used in preparing the analysis are appropriate and properly supported. For additional information on the results of recent goodwill impairment testing, see Note 10 ( Goodwill and Other Intangible Assets ) beginning on page 181 of our 2015 Form 10-K.

The fair value of other intangible assets is calculated using a cash flow approach. While the calculation to test for recoverability uses a number of assumptions that are based on current market conditions, the calculation is based primarily on unobservable assumptions. Accordingly, these assets are classified as Level 3. Our lines of business, with oversight from our Accounting group, are responsible for routinely, at least quarterly, assessing whether impairment indicators are present. All indicators that signal impairment may exist are appropriately considered in this analysis. An impairment loss is only recognized for a held-and-used long-lived asset if the sum of its estimated future undiscounted cash flows used to test for recoverability is less than its carrying value.

Our primary assumptions include attrition rates, alternative costs of funds, and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10 ( Goodwill and Other Intangible Assets ) beginning on page 181 of our 2015 Form 10-K.

***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.

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.

Consumer Real Estate Valuation Process: The Asset Management team within our Risk Operations group is responsible for valuation policies and procedures in this area. 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.



**Table of Contents****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, 2016, December 31, 2015, and March 31, 2015, along with the valuation techniques used, are shown in the following table:

| <b>March 31, 2016</b>                           | <b>Fair Value of</b>                | <b>Valuation</b>  | <b>Significant</b>                    | <b>Range</b>                    |
|---|-------------------------------------|---|---------------------------------------|---------------------------------|
| <i>dollars in millions</i>                      | <b>Level 3 Assets</b>               | <b>Technique</b>  | <b>Unobservable Input</b>             | <b>(Weighted-Average)</b>       |
| <b>Recurring</b>                                |                                     |   |                                       |                                 |
| Other investments principal investments direct: | \$ 47                               | Individual analysis of the condition of each investment |                                       |                                 |
| Debt instruments                                |                                     |   | EBITDA multiple                       | 4.00-6.30 (6.10)                |
|   |                                     |   | Revenue multiple (where applicable)   | N/A (0.40)                      |
| Equity instruments of private companies         |                                     |   | EBITDA multiple (where applicable)    | 6.10-6.30 (6.10)                |
|   |                                     |   | Revenue multiple (where applicable)   | N/A (0.40)                      |
| <b>Nonrecurring</b>                             |                                     |   |                                       |                                 |
| Impaired loans                                  | 25                                  | Fair value of underlying collateral                     | Discount                              | 00.00-40.00% (11.00%)           |
| Goodwill  | 1,060                               | Discounted cash flow and market data                    | Earnings multiple of peers            | 10.30-17.80 (12.79)             |
|   |                                     |   | Equity multiple of peers              | 1.25-1.56 (1.43)                |
|   |                                     |   | Control premium                       | 10.00-30.00% (19.18%)           |
|   |                                     |   | Weighted-average cost of capital      | 12.00-13.00% (12.54%)           |
| <b>December 31, 2015</b>                        |                                     |   |                                       |                                 |
| <i>dollars in millions</i>                      | <b>Fair Value of Level 3 Assets</b> | <b>Valuation Technique</b>                              | <b>Significant Unobservable Input</b> | <b>Range (Weighted-Average)</b> |
| <b>Recurring</b>                                |                                     |   |                                       |                                 |
| Other investments principal investments direct: | \$ 50                               | Individual analysis of the condition of each investment |                                       |                                 |
| Debt instruments                                |                                     |   | EBITDA multiple                       | N/A (5.40)                      |
| Equity instruments of private companies         |                                     |   | EBITDA multiple (where applicable)    | 5.40-6.70 (6.60)                |
| <b>Nonrecurring</b>                             |                                     |   |                                       |                                 |
| Impaired loans <sup>(a)</sup>                   |                                     | Fair value of underlying collateral                     | Discount                              | 00.00-34.00% (15.00%)           |
| Goodwill  | 1,060                               |   |                                       | 10.30-17.80 (12.79)             |

|  |                                      |                                  |                       |
|--|--------------------------------------|----------------------------------|-----------------------|
|  | Discounted cash flow and market data | Earnings multiple of peers       |                       |
|  |                                      | Equity multiple of peers         | 1.25-1.56 (1.43)      |
|  |                                      | Control premium                  | 10.00-30.00% (19.18%) |
|  |                                      | Weighted-average cost of capital | 12.00-13.00% (12.54%) |

(a) Impaired loans are less than \$1 million at December 31, 2015.

| March 31, 2015                                  | Fair Value of  | Valuation   | Significant                         | Range                  |
|---|----------------|---|-------------------------------------|------------------------|
| <i>dollars in millions</i>                      | Level 3 Assets | Technique   | Unobservable Input                  | (Weighted-Average)     |
| <b>Recurring</b>                                |                |   |                                     |                        |
| Other investments principal investments direct: | \$ 73          | Individual analysis of the condition of each investment |                                     |                        |
| Debt instruments                                |                |   | EBITDA multiple                     | 5.40-6.00 (5.50)       |
| Equity instruments of private companies         |                |   | EBITDA multiple (where applicable)  | N/A (6.00)             |
|   |                |   | Revenue multiple (where applicable) | N/A (4.30)             |
| <b>Nonrecurring</b>                             |                |   |                                     |                        |
| Impaired loans                                  | 15             | Fair value of underlying collateral                     | Discount                            | 00.00-100.00% (36.00%) |
| Goodwill  | 1,057          | Discounted cash flow and market data                    | Earnings multiple of peers          | 11.40-15.90 (12.92)    |
|   |                |   | Equity multiple of peers            | 1.20-1.22 (1.21)       |
|   |                |   | Control premium                     | 10.00-30.00% (19.70%)  |
|   |                |   | Weighted-average cost of capital    | 13.00-14.00% (13.52%)  |

**Table of Contents****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, 2016, December 31, 2015, and March 31, 2015, are shown in the following table.

| <i>in millions</i>  | Carrying<br>Amount | March 31, 2016<br>Fair Value<br>Measured<br>at |           |         |        |                         | Netting<br>Adjustment | Total     |
|---|--------------------|--|-----------|---------|--------|-------------------------|-----------------------|-----------|
|   |                    | Level 1  | Level 2   | Level 3 | NAV    |                         |                       |           |
| <b>ASSETS</b>   |                    |  |           |         |        |                         |                       |           |
| Cash and short-term investments<br>(a)                      | \$ 5,910           | \$ 5,910                                       |           |         |        |                         |                       | \$ 5,910  |
| Trading account assets (b)                                  | 765                |  | \$ 765    |         |        |                         |                       | 765       |
| Securities available for sale (b)                           | 14,304             | 3  | 14,284    | \$ 17   |        |                         |                       | 14,304    |
| Held-to-maturity securities (c)                             | 5,003              |  | 5,031     |         |        |                         |                       | 5,031     |
| Other investments (b)                                       | 643                | 14   |           | 410     | \$ 219 |                         |                       | 643       |
| Loans, net of allowance (d)                                 | 59,612             |  |           | 58,535  |        |                         |                       | 58,535    |
| Loans held for sale (b)                                     | 684                |  |           | 684     |        |                         |                       | 684       |
| Derivative assets (b)                                       | 1,065              | 103  | 1,689     | 18      |        | \$ (745) <sup>(f)</sup> |                       | 1,065     |
| <b>LIABILITIES</b>  |                    |  |           |         |        |                         |                       |           |
| Deposits with no stated maturity<br>(a)                     | \$ 67,028          |  | \$ 67,028 |         |        |                         |                       | \$ 67,028 |
| Time deposits (c)   | 6,354              |  | 6,426     |         |        |                         |                       | 6,426     |
| Short-term borrowings (a)                                   | 988                | \$ 9   | 979       |         |        |                         |                       | 988       |
| Long-term debt (c)  | 10,760             | 10,667   | 379       |         |        |                         |                       | 11,046    |
| Derivative liabilities (b)                                  | 790                | 108  | 1,147     |         |        | \$ (465) <sup>(f)</sup> |                       | 790       |
| <b>December 31, 2015<br/>Fair Value<br/>Measured<br/>at</b> |                    |  |           |         |        |                         |                       |           |
| <i>in millions</i>  | Carrying<br>Amount | Level 1  | Level 2   | Level 3 | NAV    | Netting<br>Adjustment   | Total                 |           |
| <b>ASSETS</b>   |                    |  |           |         |        |                         |                       |           |
| Cash and short-term investments<br>(a)                      | \$ 3,314           | \$ 3,314                                       |           |         |        |                         | \$ 3,314              |           |
| Trading account assets (b)                                  | 788                | 3  | \$ 785    |         |        |                         | 788                   |           |
| Securities available for sale (b)                           | 14,218             | 3  | 14,198    | \$ 17   |        |                         | 14,218                |           |
| Held-to-maturity securities (c)                             | 4,897              |  | 4,848     |         |        |                         | 4,848                 |           |
| Other investments (b)                                       | 655                |  | 19        | 393     | \$ 243 |                         | 655                   |           |
| Loans, net of allowance (d)                                 | 59,080             |  |           | 57,508  |        |                         | 57,508                |           |
| Loans held for sale (b)                                     | 639                |  |           | 639     |        |                         | 639                   |           |
| Derivative assets (b)                                       | 619                | 143  | 1,324     | 18      |        | \$ (866) <sup>(f)</sup> | 619                   |           |
| <b>LIABILITIES</b>  |                    |  |           |         |        |                         |                       |           |
|   | \$ 65,527          |  | \$ 65,527 |         |        |                         | \$ 65,527             |           |

|   |        |          |       |      |  |                             |
|---|--------|----------|-------|------|--|-----------------------------|
| Deposits with no stated maturity<br>(a) |        |          |       |      |  |                             |
| Time deposits (e)                       | 5,519  |          | 5,575 |      |  | 5,575                       |
| Short-term borrowings (a)               | 905    |          | 905   |      |  | 905                         |
| Long-term debt (e)                      | 10,186 | \$ 9,987 | 420   |      |  | 10,407                      |
| Derivative liabilities (b)              | 632    | 116      | 1,009 | \$ 1 |  | \$ (494) <sup>(f)</sup> 632 |

## March 31, 2015

| <i>in millions</i>                      | Carrying<br>Amount | Fair Value<br>Measured |           |         | at<br>NAV | Netting<br>Adjustment     | Total     |
|---|--------------------|------------------------|-----------|---------|-----------|---------------------------|-----------|
|   |                    | Level 1                | Level 2   | Level 3 |           |                           |           |
| <b>ASSETS</b>                           |                    |                        |           |         |           |                           |           |
| Cash and short-term investments<br>(a)  | \$ 3,884           | \$ 3,884               |           |         |           |                           | \$ 3,884  |
| Trading account assets (b)              | 789                | 5                      | \$ 784    |         |           |                           | 789       |
| Securities available for sale (b)       | 13,120             | 23                     | 13,087    | \$ 10   |           |                           | 13,120    |
| Held-to-maturity securities (c)         | 5,005              |                        | 5,003     |         |           |                           | 5,003     |
| Other investments (b)                   | 730                | 1                      |           | 415     | \$ 314    |                           | 730       |
| Loans, net of allowance (d)             | 57,159             |                        |           | 55,702  |           |                           | 55,702    |
| Loans held for sale (b)                 | 1,649              |                        |           | 1,649   |           |                           | 1,649     |
| Derivative assets (b)                   | 731                | 164                    | 1,625     | 13      |           | \$ (1,071) <sup>(f)</sup> | 731       |
| <b>LIABILITIES</b>                      |                    |                        |           |         |           |                           |           |
| Deposits with no stated maturity<br>(a) | \$ 65,984          |                        | \$ 65,984 |         |           |                           | \$ 65,984 |
| Time deposits (e)                       | 5,638              | \$ 488                 | 5,210     |         |           |                           | 5,698     |
| Short-term borrowings (a)               | 1,125              |                        | 1,125     |         |           |                           | 1,125     |
| Long-term debt (e)                      | 8,713              | 8,559                  | 549       |         |           |                           | 9,108     |
| Derivative liabilities (b)              | 825                | 138                    | 1,274     | \$ 1    |           | \$ (588) <sup>(f)</sup>   | 825       |

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**Table of Contents****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.
- (b) 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 Measured at Fair Value on a Nonrecurring Basis* in this Note.
- (c) 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, interest rate spreads on relevant benchmark securities, and certain prepayment assumptions. We review the valuations derived from the models to ensure 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.
- (f) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with 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.

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. 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 2015 and the first quarter of 2016, 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 \$1.7 billion (\$1.5 billion at fair value) at March 31, 2016, and \$1.8 billion (\$1.5 billion at fair value) at December 31, 2015, and \$2.0 billion (\$1.7 billion at fair value) at March 31, 2015; and

Portfolio loans at fair value of \$3 million at March 31, 2016, \$4 million at December 31, 2015, and \$187 million at March 31, 2015.

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.

***Residential real estate mortgage loans.*** Residential real estate mortgage loans with carrying amounts of \$2.2 billion at March 31, 2016, December 31, 2015, and March 31, 2015 are included in Loans, net of allowance in the previous table.

***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**

***Securities available for sale.*** These are securities that we intend to hold for an indefinite period of time but that may be sold in response to changes in interest rates, prepayment risk, liquidity needs, or other factors. Securities available for sale are reported at fair value. Unrealized gains and losses (net of income taxes) deemed temporary are recorded in equity as a component of AOCI on the balance sheet. Unrealized losses on equity securities deemed to be other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method, are included in other income on the income statement. Unrealized losses on debt securities deemed to be other-than-temporary are included in other income on the income statement or in AOCI on the balance sheet in accordance with the applicable accounting guidance related to the recognition of OTTI of debt securities.

Other securities held in the available-for-sale portfolio consist of marketable equity securities that are traded on a public exchange such as the NYSE or NASDAQ and convertible preferred stock issued by privately held companies.

***Held-to-maturity securities.*** These are debt securities that we have the intent and ability to hold until maturity. Debt securities are carried at cost and adjusted for amortization of premiums and accretion of discounts using the interest method. This method produces a constant rate of return on the adjusted carrying amount.

Other securities held in the held-to-maturity portfolio consist of foreign bonds and capital securities.

Unrealized losses on equity securities deemed to be other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method, are included in other income on the income statement. Unrealized losses on debt securities deemed to be other-than-temporary are included in other income on the income statement or in AOCI on the balance sheet in accordance with the applicable accounting guidance related to the recognition of OTTI of debt 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.

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| <i>in millions</i>                   | March 31, 2016    |                              |                               |               |
|--------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>SECURITIES AVAILABLE FOR SALE</b> |                   |                              |                               |               |
| States and political subdivisions    | \$ 12             | \$ 1                         |                               | \$ 13         |
| Collateralized mortgage obligations  | 12,071            | 132                          | \$ 41                         | 12,162        |
| Other mortgage-backed securities     | 2,087             | 22                           |                               | 2,109         |
| Other securities                     | 21                |                              | 1                             | 20            |
| Total securities available for sale  | \$ 14,191         | \$ 155                       | \$ 42                         | \$ 14,304     |
| <b>HELD-TO-MATURITY SECURITIES</b>   |                   |                              |                               |               |
| Collateralized mortgage obligations  | \$ 4,238          | \$ 28                        | \$ 12                         | \$ 4,254      |
| Other mortgage-backed securities     | 743               | 12                           |                               | 755           |
| Other securities                     | 22                |                              |                               | 22            |
| Total held-to-maturity securities    | \$ 5,003          | \$ 40                        | \$ 12                         | \$ 5,031      |

| <i>in millions</i>                   | December 31, 2015 |                              |                               |               |
|--------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>SECURITIES AVAILABLE FOR SALE</b> |                   |                              |                               |               |
| States and political subdivisions    | \$ 14             |                              |                               | \$ 14         |
| Collateralized mortgage obligations  | 12,082            | \$ 51                        | \$ 138                        | 11,995        |
| Other mortgage-backed securities     | 2,193             | 11                           | 15                            | 2,189         |
| Other securities                     | 21                |                              | 1                             | 20            |
| Total securities available for sale  | \$ 14,310         | \$ 62                        | \$ 154                        | \$ 14,218     |
| <b>HELD-TO-MATURITY SECURITIES</b>   |                   |                              |                               |               |
| Collateralized mortgage obligations  | \$ 4,174          | \$ 5                         | \$ 50                         | \$ 4,129      |
| Other mortgage-backed securities     | 703               |                              | 4                             | 699           |
| Other securities                     | 20                |                              |                               | 20            |
| Total held-to-maturity securities    | \$ 4,897          | \$ 5                         | \$ 54                         | \$ 4,848      |

| <i>in millions</i>                   | March 31, 2015    |                              |                               |               |
|--------------------------------------|-------------------|------------------------------|-------------------------------|---------------|
|                                      | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |
| <b>SECURITIES AVAILABLE FOR SALE</b> |                   |                              |                               |               |
| States and political subdivisions    | \$ 21             | \$ 1                         |                               | \$ 22         |
| Collateralized mortgage obligations  | 11,116            | 124                          | \$ 77                         | 11,163        |
| Other mortgage-backed securities     | 1,870             | 32                           |                               | 1,902         |



|                                     |           |        |           |
|-------------------------------------|-----------|--------|-----------|
| Other securities                    | 30        | 3      | 33        |
| Total securities available for sale | \$ 13,037 | \$ 160 | \$ 13,120 |
| <b>HELD-TO-MATURITY SECURITIES</b>  |           |        |           |
| Collateralized mortgage obligations | \$ 4,749  | \$ 26  | \$ 4,745  |
| Other mortgage-backed securities    | 234       | 2      | 236       |
| Other securities                    | 22        |        | 22        |
| Total held-to-maturity securities   | \$ 5,005  | \$ 28  | \$ 5,003  |

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The following table summarizes our securities that were in an unrealized loss position as of March 31, 2016, December 31, 2015, and March 31, 2015.

| <i>in millions</i>                              | <b>Duration of Unrealized Loss Position</b> |               |                            |               |                         |               |
|---|---|---------------|----------------------------|---------------|-------------------------|---------------|
|   | <b>Less than 12 Months</b>                  |               | <b>12 Months or Longer</b> |               | <b>Total</b>            |               |
|   | <b>Gross Unrealized</b>                     |               | <b>Gross Unrealized</b>    |               | <b>Gross Unrealized</b> |               |
|   | <b>Fair Value</b>                           | <b>Losses</b> | <b>Fair Value</b>          | <b>Losses</b> | <b>Fair Value</b>       | <b>Losses</b> |
| <b>March 31, 2016</b>                           |   |               |                            |               |                         |               |
| Securities available for sale:                  |   |               |                            |               |                         |               |
| Collateralized mortgage obligations             | \$ 941                                      | \$ 6          | \$ 2,805                   | \$ 35         | \$ 3,746                | \$ 41         |
| Other mortgage-backed securities <sup>(a)</sup> | 61  |               |                            |               | 61                      |               |
| Other securities                                |   |               | 3                          | 1             | 3                       | 1             |
| Held-to-maturity:                               |   |               |                            |               |                         |               |
| Collateralized mortgage obligations             | 250   | 1             | 809                        | 11            | 1,059                   | 12            |
| Other securities <sup>(b)</sup>                 |   |               | 4                          |               | 4                       |               |
| <b>Total temporarily impaired securities</b>    | <b>\$ 1,252</b>                             | <b>\$ 7</b>   | <b>\$ 3,621</b>            | <b>\$ 47</b>  | <b>\$ 4,873</b>         | <b>\$ 54</b>  |
| <b>December 31, 2015</b>                        |   |               |                            |               |                         |               |
| Securities available for sale:                  |   |               |                            |               |                         |               |
| Collateralized mortgage obligations             | \$ 5,190                                    | \$ 43         | \$ 3,206                   | \$ 95         | \$ 8,396                | \$ 138        |
| Other mortgage-backed securities                | 1,670                                       | 15            |                            |               | 1,670                   | 15            |
| Other securities                                |   |               | 3                          | 1             | 3                       | 1             |
| Held-to-maturity:                               |   |               |                            |               |                         |               |
| Collateralized mortgage obligations             | 1,793                                       | 16            | 1,320                      | 34            | 3,113                   | 50            |
| Other mortgage-backed securities                | 547   | 4             |                            |               | 547                     | 4             |
| Other securities <sup>(b)</sup>                 | 4   |               |                            |               | 4                       |               |
| <b>Total temporarily impaired securities</b>    | <b>\$ 9,204</b>                             | <b>\$ 78</b>  | <b>\$ 4,529</b>            | <b>\$ 130</b> | <b>\$ 13,733</b>        | <b>\$ 208</b> |
| <b>March 31, 2015</b>                           |   |               |                            |               |                         |               |
| Securities available for sale:                  |   |               |                            |               |                         |               |
| Collateralized mortgage obligations             | \$ 1,722                                    | \$ 25         | \$ 2,722                   | \$ 52         | \$ 4,444                | \$ 77         |
| Other mortgage-backed securities <sup>(a)</sup> | 39  |               |                            |               | 39                      |               |
| Other securities <sup>(c)</sup>                 | 3   |               | 2                          |               | 5                       |               |
| Held-to-maturity:                               |   |               |                            |               |                         |               |
| Collateralized mortgage obligations             | 637   | 8             | 1,348                      | 22            | 1,985                   | 30            |
| Other securities <sup>(b)</sup>                 | 4   |               |                            |               | 4                       |               |
| <b>Total temporarily impaired securities</b>    | <b>\$ 2,405</b>                             | <b>\$ 33</b>  | <b>\$ 4,072</b>            | <b>\$ 74</b>  | <b>\$ 6,477</b>         | <b>\$ 107</b> |

(a)

Gross unrealized losses totaled less than \$1 million for other mortgage-backed securities available for sale as of March 31, 2016, and March 31, 2015.

- (b) Gross unrealized losses totaled less than \$1 million for other securities held to maturity as of March 31, 2016, December 31, 2015, and March 31, 2015.
- (c) Gross unrealized losses totaled less than \$1 million for other securities available for sale as of March 31, 2015. At March 31, 2016, we had \$41 million of gross unrealized losses related to 55 fixed-rate CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4.0 years at March 31, 2016. We also had less than \$1 million of gross unrealized losses related to 11 other mortgage-backed securities positions, which had a weighted-average maturity of 4.3 years at March 31, 2016. 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 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.

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The debt securities identified as other-than-temporarily impaired are written down to their current fair value. For those debt securities that we intend to sell, or more-likely-than-not will be required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component of AOCI on the balance sheet. As shown in the following table, we did not have any impairment losses recognized in earnings for the three months ended March 31, 2016.

**Three months ended March 31, 2016***in millions*

|                                     |             |
|-------------------------------------|-------------|
| <b>Balance at December 31, 2015</b> | <b>\$ 4</b> |
| Impairment recognized in earnings   |             |

|                                  |             |
|----------------------------------|-------------|
| <b>Balance at March 31, 2016</b> | <b>\$ 4</b> |
|----------------------------------|-------------|

For the three months ended March 31, 2016, net securities gains (losses) related to securities available for sale totaled less than \$1 million.

At March 31, 2016, securities available for sale and held-to-maturity securities totaling \$5.9 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 securities by remaining maturity. CMOs and other mortgage-backed securities (both of which are included in the securities available-for-sale portfolio) as well as the CMOs in the 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 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.

| <b>March 31, 2016</b>            | <b>Securities Available for Sale</b> |                   | <b>Held-to-Maturity Securities</b> |                   |
|----------------------------------|--------------------------------------|-------------------|------------------------------------|-------------------|
|                                  | <b>Amortized Cost</b>                | <b>Fair Value</b> | <b>Amortized Cost</b>              | <b>Fair Value</b> |
| <i>in millions</i>               |                                      |                   |                                    |                   |
| Due in one year or less          | \$ 281                               | \$ 285            | \$ 38                              | \$ 39             |
| Due after one through five years | 13,245                               | 13,350            | 4,222                              | 4,238             |
| Due after five through ten years | 663                                  | 667               | 591                                | 599               |
| Due after ten years              | 2                                    | 2                 | 152                                | 155               |
| <b>Total</b>                     | <b>\$ 14,191</b>                     | <b>\$ 14,304</b>  | <b>\$ 5,003</b>                    | <b>\$ 5,031</b>   |

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**Table of Contents****7. Derivatives and Hedging Activities**

We are a party to various derivative instruments, mainly through our subsidiary, KeyBank. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require a small or no net investment, and allow for the net settlement of positions. A derivative's notional amount serves as the basis for the payment provision of the contract and takes the form of units, such as shares or dollars. A derivative's underlying variable is a specified interest rate, security price, commodity price, foreign exchange rate, index, or other variable. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the fair value of the derivative contract.

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.

Derivative assets and liabilities are recorded at fair value on the balance sheet, after taking into account the effects of bilateral collateral and master netting agreements. These agreements allow us to settle all derivative contracts held with a single counterparty on a net basis and to offset net derivative positions with related cash collateral, where applicable. As a result, we could have derivative contracts with negative fair values included in derivative assets on the balance sheet and contracts with positive fair values included in derivative liabilities.

At March 31, 2016, after taking into account the effects of bilateral collateral and master netting agreements, we had \$276 million of derivative assets and a positive \$23 million of derivative liabilities that relate to contracts entered into for hedging purposes. Our hedging derivative liabilities are in an asset position largely because we have contracts with positive fair values as a result of master netting agreements. 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 \$789 million and derivative liabilities of \$813 million that were not designated as hedging instruments.

Additional information regarding our accounting policies for derivatives is provided in Note 1 ( Summary of Significant Accounting Policies ) under the heading Derivatives beginning on page 126 of our 2015 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; associated interest rates tied to each instrument; differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities; and changes in interest rates. We utilize derivatives that have

been designated as part of a hedge relationship in accordance with the applicable accounting guidance to minimize the exposure and volatility of net interest income and EVE to interest rate fluctuations. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

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 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.

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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 swaps 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**

On occasion, we 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, 2016, 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 default swaps enables us to transfer to a third party a portion of the credit risk associated with a particular extension of credit, including situations where there is a forecasted sale of loans. Beginning in the first quarter of 2014, we began purchasing credit default swaps to reduce the credit risk associated with the debt securities held in our trading portfolio. We may also sell credit derivatives to offset our purchased credit default swap position prior to maturity. Although we use credit default swaps for risk management purposes, they are not treated as hedging instruments.

We also enter into derivative contracts for other purposes, including:

interest rate swap, cap, and floor contracts entered into generally to accommodate the needs of commercial loan clients;

energy and base metal swap and option contracts entered into to accommodate the needs of clients;

futures contracts and positions with third parties that are intended to offset or mitigate the interest rate or market risk related to client positions discussed above; and

foreign exchange forward and option contracts entered into primarily to accommodate the needs of clients. These contracts are not designated as part of hedge relationships.

**Fair Values, Volume of Activity, and Gain/Loss Information Related to Derivative Instruments**

The following table summarizes the fair values of our derivative instruments on a gross and net basis as of March 31, 2016, December 31, 2015, and March 31, 2015. The change in the notional amounts of these derivatives by type from December 31, 2015, to March 31, 2016, indicates the volume of our derivative transaction activity during the first quarter of 2016. The notional amounts are not affected by bilateral collateral and master netting agreements. The derivative asset and liability balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable 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. Where master netting agreements are

not in effect or are not enforceable under bankruptcy laws, we do not adjust those derivative assets and liabilities with counterparties. Securities collateral related to legally



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enforceable master netting agreements is not offset on the balance sheet. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

| <i>in millions</i>                                 | March 31, 2016  |                   |                        | December 31, 2015 |                   |                        | March 31, 2015  |                   |                        |
|--|-----------------|-------------------|------------------------|-------------------|-------------------|------------------------|-----------------|-------------------|------------------------|
|  | Fair Value      |                   |                        | Fair Value        |                   |                        | Fair Value      |                   |                        |
|  | Notional Amount | Derivative Assets | Derivative Liabilities | Notional Amount   | Derivative Assets | Derivative Liabilities | Notional Amount | Derivative Assets | Derivative Liabilities |
| Derivatives designated as hedging instruments:     |                 |                   |                        |                   |                   |                        |                 |                   |                        |
| Interest rate                                      | \$ 21,126       | \$ 464            | \$ 12                  | \$ 18,917         | \$ 257            | \$ 15                  | \$ 16,802       | \$ 315            | \$ 14                  |
| Foreign exchange                                   | 289             | 5                 | 15                     | 312               | 20                |                        | 339             | 20                |                        |
| <b>Total</b>                                       | <b>21,415</b>   | <b>469</b>        | <b>27</b>              | <b>19,229</b>     | <b>277</b>        | <b>15</b>              | <b>17,141</b>   | <b>335</b>        | <b>14</b>              |
| Derivatives not designated as hedging instruments: |                 |                   |                        |                   |                   |                        |                 |                   |                        |
| Interest rate                                      | 43,048          | 880               | 785                    | 43,965            | 627               | 548                    | 41,913          | 728               | 678                    |
| Foreign exchange                                   | 6,191           | 111               | 104                    | 6,454             | 131               | 124                    | 5,544           | 152               | 147                    |
| Commodity  | 1,189           | 347               | 334                    | 1,144             | 444               | 433                    | 1,553           | 582               | 567                    |
| Credit   | 432             | 3                 | 5                      | 632               | 6                 | 6                      | 586             | 5                 | 7                      |
| <b>Total</b>                                       | <b>50,860</b>   | <b>1,341</b>      | <b>1,228</b>           | <b>52,195</b>     | <b>1,208</b>      | <b>1,111</b>           | <b>49,596</b>   | <b>1,467</b>      | <b>1,399</b>           |
| Netting adjustments <sup>(a)</sup>                 |                 | (745)             | (465)                  |                   | (866)             | (494)                  |                 | (1,071)           | (588)                  |
| Net derivatives in the balance sheet               | 72,275          | 1,065             | 790                    | 71,424            | 619               | 632                    | 66,737          | 731               | 825                    |
| Other collateral <sup>(b)</sup>                    |                 | (65)              | (197)                  |                   | (91)              | (204)                  |                 | (146)             | (244)                  |
| Net derivative amounts                             | \$ 72,275       | \$ 1,000          | \$ 593                 | \$ 71,424         | \$ 528            | \$ 428                 | \$ 66,737       | \$ 585            | \$ 581                 |

(a) 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.

(b) Other collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The other collateral consists of securities and is exchanged under bilateral collateral and master netting agreements that allow us to offset the net derivative position with the related collateral. The application of the other collateral cannot reduce the net derivative position below zero. Therefore, excess other collateral, if any, is not reflected above.

**Fair value hedges.** Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument

designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the three-month period ended March 31, 2016, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of March 31, 2016.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the three-month periods ended March 31, 2016, and March 31, 2015, and where they are recorded on the income statement.

| <b>Three months ended March 31, 2016</b> |                                     |                    |                              |                              |                              |                    |
|--|-------------------------------------|--------------------|------------------------------|------------------------------|------------------------------|--------------------|
| <i>in millions</i>                       | <b>Income Statement Location of</b> | <b>Net</b>         | <b>Income Statement</b>      | <b>Net Gains</b>             | <b>Income Statement</b>      | <b>Net Gains</b>   |
|  | <b>Net Gains (Losses) on</b>        | <b>Gains</b>       | <b>Location of</b>           | <b>(Losses) on</b>           | <b>Location of</b>           | <b>(Losses) on</b> |
|  | <b>Derivative</b>                   | <b>(Losses) on</b> | <b>Hedged</b>                | <b>Net Gains (Losses) on</b> | <b>Hedged</b>                | <b>Hedged Item</b> |
|  | <b>Derivative</b>                   | <b>Derivative</b>  | <b>Net Gains (Losses) on</b> | <b>Hedged</b>                | <b>Net Gains (Losses) on</b> | <b>Hedged Item</b> |
| Interest rate                            | Other income                        | \$ 115             | Long-term debt               | Other income                 | \$ (115) <sup>(a)</sup>      |                    |
| Interest rate                            | Interest expense                    | 27                 |                              |                              |                              |                    |
|  |                                     |                    |                              |                              |                              |                    |
| <b>Total</b>                             |                                     | <b>\$ 142</b>      |                              |                              | <b>\$ (115)</b>              |                    |

| Three months ended March 31, 2015 |                                     |                           |                |                                   |                            |
|-----------------------------------|-------------------------------------|---------------------------|----------------|-----------------------------------|----------------------------|
| <i>in millions</i>                | Income Statement<br>Location of     | Net<br>Gains              | Hedged Item    | Income Statement Location of      | Net Gains                  |
|                                   | Net Gains (Losses) on<br>Derivative | (Losses) on<br>Derivative |                | Net Gains (Losses) on Hedged Item | (Losses) on<br>Hedged Item |
| Interest rate                     | Other income                        | \$ 41                     | Long-term debt | Other income                      | \$ (41) <sup>(a)</sup>     |
| Interest rate                     | Interest expense<br>Long-term debt  | 29                        |                |                                   |                            |
| <b>Total</b>                      |                                     | <b>\$ 70</b>              |                |                                   | <b>\$ (41)</b>             |

(a) Net gains (losses) on hedged items represent the change in fair value caused by fluctuations in interest rates. **Cash flow hedges.** Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other income on the income statement. During the three-month period ended March 31, 2016, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of March 31, 2016.

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Considering the interest rates, yield curves, and notional amounts as of March 31, 2016, we would expect to reclassify an estimated \$34 million of after-tax net losses on derivative instruments from AOCI to income during the next 12 months for our cash flow hedges. In addition, we expect to reclassify approximately \$2 million of net losses related to terminated cash flow hedges from AOCI to income during the next 12 months. As of March 31, 2016, the maximum length of time over which we hedge forecasted transactions is 12 years.

**Net investment hedges.** We enter into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of or liquidate a foreign subsidiary). At March 31, 2016, AOCI reflected unrecognized after-tax gains totaling \$32 million related to cumulative changes in the fair value of our net investment hedges, which offset the unrecognized after-tax foreign currency losses on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement, but there was no net investment hedge ineffectiveness as of March 31, 2016. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the three-month period ended March 31, 2016.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the three-month periods ended March 31, 2016, and March 31, 2015, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

| Three months ended March 31, 2016                        |               |   |                |   |  |   |
|--|---------------|---|----------------|---|--|---|
| Net  |               |   |                |   |  |   |
| Net Gains (Losses) Recognized in OCI (Effective Portion) |               | Income Statement Location of Net Gains (Losses) Recognized From OCI Into Income (Effective Portion) |                | Net Gains (Losses) Recognized in Income (Ineffective Portion) |  | Net Gains (Losses) Recognized in Income |
| <i>in millions</i>                                       |               |   |                |   |  |   |
| <b>Cash Flow Hedges</b>                                  |               |   |                |   |  |   |
| Interest rate  | \$ 133        | Interest income   | Loans          | \$ 23   |  | Other income                            |
| Interest rate  | (4)           | Interest expense  | Long-term debt | (1)   |  | Other income                            |
| Interest rate  | (1)           | Investment banking and debt placement fees  |                |   |  | Other income                            |
| <b>Net Investment Hedges</b>                             |               |   |                |   |  |   |
| Foreign exchange contracts                               | (14)          |   | Other Income   |   |  | Other income                            |
| <b>Total</b>   | <b>\$ 114</b> |   |                | <b>\$ 22</b>  |  |   |

## Three months ended March 31, 2015

|                              | Net Gains (Losses) Recognized in OCI (Effective Portion)  |                            | Income Statement Location of Net (Losses) Reclassified From OCI Into Income (Effective Portion) |                              | Net Gains (Losses) Recognized in Income (Ineffective Portion)                                   |                            | Net Gains (Losses) Recognized in Income (Ineffective Portion)                                   |                              |
|------------------------------|---|----------------------------|---|------------------------------|---|----------------------------|---|------------------------------|
| <i>in millions</i>           | Income Statement Location of Net (Losses) Reclassified From OCI Into Income (Effective Portion) | Income (Effective Portion) | Income Statement Location of Net (Losses) Reclassified From OCI Into Income (Effective Portion) | (Losses) (Effective Portion) | Income Statement Location of Net (Losses) Reclassified From OCI Into Income (Effective Portion) | Income (Effective Portion) | Income Statement Location of Net (Losses) Reclassified From OCI Into Income (Effective Portion) | (Losses) (Effective Portion) |
| <b>Cash Flow</b>             |   |                            |   |                              |   |                            |   |                              |
| <b>Hedges</b>                |   |                            |   |                              |   |                            |   |                              |
| Interest rate                | \$ 54   |                            | Interest income   | Loans                        | \$ 22   |                            | Other income  |                              |
| Interest rate                | (2)   |                            | Interest expense  | Long-term debt               | (1)   |                            | Other income  |                              |
| Interest rate                | (4)   |                            | Investment banking and debt placement fees  |                              |   |                            | Other income  |                              |
| <b>Net Investment Hedges</b> |   |                            |   |                              |   |                            |   |                              |
| Foreign exchange contracts   | 24  |                            |   | Other Income                 |   |                            | Other income  |                              |
| Total                        | \$ 72   |                            |   |                              | \$ 21   |                            |   |                              |

The after-tax change in AOCI resulting from cash flow and net investment hedges is as follows:

| <i>in millions</i>                                      | December 31, 2015 | 2016 Hedging Activity | Reclassification of Gains to Net Income | March 31, 2016 |
|---|-------------------|-----------------------|---|----------------|
| AOCI resulting from cash flow and net investment hedges | \$ 20             | \$ 72                 | \$ (14)                                 | \$ 78          |

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**Nonhedging instruments.** Our derivatives that are not designated as hedging instruments are recorded at fair value in derivative assets and derivative liabilities on the balance sheet. Adjustments to the fair values of these instruments, as well as any premium paid or received, are included in corporate services income and other income on the income statement.

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the three-month periods ended March 31, 2016, and March 31, 2015, and where they are recorded on the income statement.

|                           | Three months ended March 31, 2016 |              |       | Three months ended March 31, 2015 |              |       |
|---------------------------|-----------------------------------|--------------|-------|-----------------------------------|--------------|-------|
|                           | Corporate Services Income         | Other Income | Total | Corporate Services Income         | Other Income | Total |
| <i>in millions</i>        |                                   |              |       |                                   |              |       |
| <b>NET GAINS (LOSSES)</b> |                                   |              |       |                                   |              |       |
| Interest rate             | \$ 6                              | \$ (1)       | \$ 5  | \$ 4                              |              | \$ 4  |
| Foreign exchange          | 10                                |              | 10    | 8                                 |              | 8     |
| Commodity                 | 1                                 |              | 1     | 2                                 |              | 2     |
| Credit                    | 1                                 | (2)          | (1)   |                                   | \$ (4)       | (4)   |
| Total net gains (losses)  | \$ 18                             | \$ (3)       | \$ 15 | \$ 14                             | \$ (4)       | \$ 10 |

**Counterparty Credit Risk**

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with standard ISDA documentation, central clearing rules, and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises, or GNMA. The cash collateral netted against derivative assets on the balance sheet totaled \$310 million at March 31, 2016, \$377 million at December 31, 2015, and \$514 million at March 31, 2015. The cash collateral netted against derivative liabilities totaled \$29 million at March 31, 2016, \$5 million at December 31, 2015, and \$31 million at March 31, 2015. The relevant agreements that allow us to access the central clearing organizations to clear derivative transactions are not considered to be qualified master netting agreements. Therefore, we cannot net derivative contracts or offset those contracts with related cash collateral with these counterparties. At March 31, 2016, we posted \$286 million of cash collateral with clearing organizations and held \$98 million of cash collateral from clearing organizations. At December 31, 2015, we posted \$143 million of cash collateral with clearing organizations and held \$6 million of cash collateral from clearing organizations. At March 31, 2015, we posted \$68 million of cash collateral with clearing organizations and held \$7 million of cash collateral from clearing organizations. This additional cash collateral is included in accrued income and other assets and accrued expense and other liabilities on the balance sheet.

The following table summarizes our largest exposure to an individual counterparty at the dates indicated.

| <i>in millions</i>  | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|---|---------------------------|------------------------------|---------------------------|
| Largest gross exposure (derivative asset) to an individual counterparty | \$ 150                    | \$ 158                       | \$ 122                    |
| Collateral posted by this counterparty                                  | 66                        | 85                           | 91                        |
| Derivative liability with this counterparty                             | 82                        | 74                           | 28                        |
| Net exposure after netting adjustments and collateral                   | 2                         | (1)                          | 3                         |

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The following table summarizes the fair value of our derivative assets by type at the dates indicated. These assets represent our gross exposure to potential loss after taking into account the effects of bilateral collateral and master netting agreements and other means used to mitigate risk.

| <i>in millions</i>                  | March 31,<br>2016 | December 31,<br>2015 | March 31,<br>2015 |
|-------------------------------------|-------------------|----------------------|-------------------|
| Interest rate                       | \$ 1,132          | \$ 628               | \$ 755            |
| Foreign exchange                    | 37                | 66                   | 58                |
| Commodity                           | 204               | 298                  | 431               |
| Credit                              | 2                 | 4                    | 1                 |
| Derivative assets before collateral | 1,375             | 996                  | 1,245             |
| Less: Related collateral            | 310               | 377                  | 514               |
| Total derivative assets             | \$ 1,065          | \$ 619               | \$ 731            |

We enter into derivative transactions with two primary groups: broker-dealers and banks, and clients. Since these groups have different economic characteristics, we have different methods for managing counterparty credit exposure and credit risk.

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. We began clearing certain types of derivative transactions with these counterparties in June 2013, whereby the central clearing organizations become our counterparties subsequent to novation of the original derivative contracts. In addition, we began entering into derivative contracts through swap execution facilities during the first quarter of 2014. The swap clearing and swap trade execution requirements were mandated by the Dodd-Frank Act for the purpose of reducing counterparty credit risk and increasing transparency in the derivative market. At March 31, 2016, we had gross exposure of \$937 million to broker-dealers and banks. We had net exposure of \$484 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of \$399 million after considering \$85 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures and entering into offsetting positions and other derivative contracts, sometimes with entities other than broker-dealers and banks. Due to the smaller size and magnitude of the individual contracts with clients, we generally do not exchange collateral in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a credit valuation adjustment (included in derivative assets) in the amount of \$7 million at March 31, 2016, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At March 31, 2016, we had gross exposure of \$626 million to client counterparties and other entities that are not broker-dealers or banks for derivatives that have associated master netting agreements. We had net exposure of \$581 million on our derivatives with these counterparties after the application of master netting agreements, collateral, and the related reserve. In addition, the derivatives for one counterparty were guaranteed by a third party with a letter of credit totaling \$20 million.



## Credit Derivatives

We are both a buyer and seller of credit protection through the credit derivative market. We purchase credit derivatives to manage the credit risk associated with specific commercial lending and swap obligations as well as exposures to debt securities. We may also sell credit derivatives, mainly single-name credit default swaps, to offset our purchased credit default swap positions prior to maturity.

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of March 31, 2016, December 31, 2015, and March 31, 2015. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

| <i>in millions</i>                 | March 31, 2016 |        | December 31, 2015 |        | March 31, 2015 |        |        |
|------------------------------------|----------------|--------|-------------------|--------|----------------|--------|--------|
|                                    | Purchased      | Sold   | Net Purchased     | Sold   | Net Purchased  | Sold   | Net    |
| Single-name credit default swaps   | \$ (3)         | \$ (3) | \$ (3)            | \$ (3) | \$ (3)         | \$ (3) | \$ (3) |
| Traded credit default swap indices | 1              | 1      | 4                 | 4      | 1              | 1      | 1      |
| Other (a)                          | \$             |        | \$ (1)            | (1)    | 1              | \$ (1) |        |
| Total credit derivatives           | \$ (2)         | \$ (2) | \$ 1              | \$ (1) | \$ (1)         | \$ (1) | \$ (2) |

(a) As of March 31, 2016, the fair value of other credit derivatives sold totaled less than \$1 million.

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Single-name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protection against the credit risk of a specific entity (the reference entity) in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring of obligations, identified in the credit derivative contract. As the seller of a single-name credit derivative, we may settle in one of two ways if the underlying reference entity experiences a predefined credit event. We may be required to pay the purchaser the difference between the par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement). If we effect a physical settlement and receive our portion of the related debt obligation, we will join other creditors in the liquidation process, which may enable us to recover a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

A traded credit default swap index represents a position on a basket or portfolio of reference entities. As a seller of protection on a credit default swap index, we would be required to pay the purchaser if one or more of the entities in the index had a credit event. Upon a credit event, the amount payable is based on the percentage of the notional amount allocated to the specific defaulting entity.

The majority of transactions represented by the other category shown in the above table are risk participation agreements. In these transactions, the lead participant has a swap agreement with a customer. The lead participant (purchaser of protection) then enters into a risk participation agreement with a counterparty (seller of protection), under which the counterparty receives a fee to accept a portion of the lead participant's credit risk. If the customer defaults on the swap contract, the counterparty to the risk participation agreement must reimburse the lead participant for the counterparty's percentage of the positive fair value of the customer swap as of the default date. If the customer swap has a negative fair value, the counterparty has no reimbursement requirements. If the customer defaults on the swap contract and the seller fulfills its payment obligations under the risk participation agreement, the seller is entitled to a *pro rata* share of the lead participant's claims against the customer under the terms of the swap agreement.

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at March 31, 2016, December 31, 2015, and March 31, 2015. The notional amount represents the maximum amount that the seller could be required to pay. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities' debt obligations using a Moody's credit ratings matrix known as Moody's Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

|                                  | March 31, 2016 |           |             | December 31, 2015 |           |             | March 31, 2015 |           |             |
|----------------------------------|----------------|-----------|-------------|-------------------|-----------|-------------|----------------|-----------|-------------|
|                                  | Average        | Payment / | Risk        | Average           | Payment / | Risk        | Average        | Payment / | Risk        |
| <i>dollars in millions</i>       | Notional       | Term      | Performance | Notional          | Term      | Performance | Notional       | Term      | Performance |
|                                  | Amount         | (Years)   | Risk        | Amount            | (Years)   | Risk        | Amount         | (Years)   | Risk        |
| Single-name credit default swaps |                |           |             |                   |           |             | \$ 5           | .47       | .87%        |
| Other                            | \$ 9           | 3.46      | 10.92%      | \$ 5              | 2.67      | 14.46%      | 8              | 3.04      | 9.39        |
| Total credit derivatives sold    | \$ 9           |           |             | \$ 5              |           |             | \$ 13          |           |             |

## Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody's and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody's and BBB- for S&P). At March 31, 2016, KeyBank's rating was A3 with Moody's and A- with S&P, and KeyCorp's rating was Baa1 with Moody's and BB with S&P. As of March 31, 2016, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled \$210 million, which includes \$200 million in derivative assets and \$410 million in derivative liabilities. We had \$216 million in cash and securities collateral posted to cover those positions as of March 31, 2016. The aggregate fair value of all derivative contracts with credit risk contingent features held by KeyCorp as of March 31, 2016, that were in a net liability position totaled \$11 million, which consists solely of derivative liabilities. We had \$11 million in collateral posted to cover those positions as of March 31, 2016.

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The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver under the ISDA Master Agreements had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of March 31, 2016, December 31, 2015, and March 31, 2015. The additional collateral amounts were calculated based on scenarios under which KeyBank's ratings are downgraded one, two, or three ratings as of March 31, 2016, December 31, 2015, and March 31, 2015, and take into account all collateral already posted. A similar calculation was performed for KeyCorp, and no additional collateral would have been required as of March 31, 2016, December 31, 2015, or March 31, 2015. For more information about the credit ratings for KeyBank and KeyCorp, see the discussion under the heading "Factors affecting liquidity" in the section entitled "Liquidity risk management" in Item 2 of this report.

| <i>in millions</i>                                  | March 31,<br>2016 |      | December 31, 2015 |      | March 31,<br>2015 |      |
|---|-------------------|------|-------------------|------|-------------------|------|
|   | Moody's           | S&P  | Moody's           | S&P  | Moody's           | S&P  |
| KeyBank's long-term senior unsecured credit ratings | A3                | A-   | A3                | A-   | A3                | A-   |
| One rating downgrade                                | \$ 2              | \$ 2 | \$ 2              | \$ 2 | \$ 4              | \$ 4 |
| Two rating downgrades                               | 2                 | 2    | 2                 | 2    | 4                 | 4    |
| Three rating downgrades                             | 4                 | 4    | 4                 | 4    | 6                 | 6    |

KeyBank's long-term senior unsecured credit rating was four ratings above noninvestment grade at Moody's and S&P as of March 31, 2016, December 31, 2015, and March 31, 2015. If KeyBank's ratings had been downgraded below investment grade as of March 31, 2016, and December 31, 2015, payments of up to \$5 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. As of March 31, 2015, payments of up to \$8 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. If KeyCorp's ratings had been downgraded below investment grade as of March 31, 2016, December 31, 2015, and March 31, 2015, payments of less than \$1 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

**Table of Contents****8. Mortgage Servicing Assets**

We originate and periodically sell commercial mortgage loans but continue to service those loans for the buyers. We also may purchase the right to service commercial mortgage loans for other lenders. We record a servicing asset if we purchase or retain the right to service loans in exchange for servicing fees that exceed the going market servicing rate and are considered more than adequate compensation for servicing. Mortgage servicing assets are recorded as a component of accrued income and other assets on the balance sheet. Changes in the carrying amount of mortgage servicing assets are summarized as follows:

| <i>in millions</i>                 | <b>Three months ended March 31,</b> |             |
|------------------------------------|-------------------------------------|-------------|
|                                    | <b>2016</b>                         | <b>2015</b> |
| Balance at beginning of period     | \$ 321                              | \$ 323      |
| Servicing retained from loan sales | 7                                   | 10          |
| Purchases                          | 12                                  | 15          |
| Amortization                       | (22)                                | (24)        |
| Balance at end of period           | \$ 318                              | \$ 324      |
| Fair value at end of period        | \$ 408                              | \$ 423      |

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The range and weighted-average of the significant unobservable inputs used to fair value our mortgage servicing assets at March 31, 2016, December 31, 2015, and March 31, 2015, along with the valuation techniques, are shown in the following table:

| <b>March 31, 2016</b>      |                            | <b>Significant</b>        | <b>Range</b>              |
|----------------------------|----------------------------|---------------------------|---------------------------|
| <i>dollars in millions</i> | <b>Valuation Technique</b> | <b>Unobservable Input</b> | <b>(Weighted-Average)</b> |
| Mortgage servicing assets  | Discounted cash flow       | Prepayment speed          | 1.50 - 16.70% (4.10%)     |
|                            |                            | Expected defaults         | 1.00 - 3.00% (1.70%)      |
|                            |                            | Residual cash flows       |                           |
|                            |                            | discount rate             | 7.00 - 15.00% (7.90%)     |
|                            |                            | Escrow earn rate          | 1.10 - 3.30% (2.40%)      |
|                            |                            | Servicing cost            | \$150 - \$2,773 (\$1,336) |
|                            |                            | Loan assumption rate      | 0.00 - 3.00% (1.32%)      |
|                            |                            | Percentage late           | 0.00 - 2.00% (0.31%)      |
| <b>December 31, 2015</b>   |                            | <b>Significant</b>        | <b>Range</b>              |
| <i>dollars in millions</i> | <b>Valuation Technique</b> | <b>Unobservable Input</b> | <b>(Weighted-Average)</b> |
| Mortgage servicing assets  | Discounted cash flow       | Prepayment speed          | 1.90 - 17.20% (4.60%)     |

|  |                                   |                           |
|--|-----------------------------------|---------------------------|
|  | Expected defaults                 | 1.00 - 3.00% (1.70%)      |
|  | Residual cash flows discount rate | 7.00 - 15.00% (7.80%)     |
|  | Escrow earn rate                  | 1.00 - 3.50% (2.30%)      |
|  | Servicing cost                    | \$150 - \$2,700 (\$1,215) |
|  | Loan assumption rate              | 0.00 - 3.00% (1.34%)      |
|  | Percentage late                   | 0.00 - 2.00% (0.33%)      |

**March 31, 2015****Significant****Range**

| <i>dollars in millions</i> | <b>Valuation Technique</b> | <b>Unobservable Input</b>         | <b>(Weighted-Average)</b> |
|----------------------------|----------------------------|-----------------------------------|---------------------------|
| Mortgage servicing assets  | Discounted cash flow       | Prepayment speed                  | 1.60-13.10% (4.80%)       |
|                            |                            | Expected defaults                 | 1.00 - 3.00% (1.80%)      |
|                            |                            | Residual cash flows discount rate | 7.00 - 15.00% (7.80%)     |
|                            |                            | Escrow earn rate                  | 0.70 - 3.10% (1.90%)      |
|                            |                            | Servicing cost                    | \$150 - \$2,735 (\$1,059) |
|                            |                            | Loan assumption rate              | 0.20 - 3.00% (1.43%)      |
|                            |                            | Percentage late                   | 0.00 - 2.00% (0.33%)      |

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may also change. Expected credit losses, escrow earn rates, and discount rates are critical to the valuation of servicing assets. Estimates of these assumptions are based on how a market participant would view the respective rates and reflect historical data associated with the loans, industry trends, and other considerations. Actual rates may differ from those estimated due to changes in a variety of economic factors. A decrease in the value assigned to the escrow earn rates would cause a decrease in the fair value of our mortgage servicing assets. An increase in the assumed default rates of commercial mortgage loans or an increase in the assigned discount rates would cause a decrease in the fair value of our mortgage servicing assets.

We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets

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for each period, as shown in the table at the beginning of this note, is recorded as a reduction to contractual fee income. The contractual fee income from servicing commercial mortgage loans totaled \$35 million for the three-month period ended March 31, 2016, and \$36 million for the three-month period ended March 31, 2015. This fee income was offset by \$23 million of amortization for the three-month periods ended March 31, 2016 and March 31, 2015. Both the contractual fee income and the amortization are recorded, net, in mortgage servicing fees on the income statement.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 ( Summary of Significant Accounting Policies ) under the heading Servicing Assets on page 127 of our 2015 Form 10-K.

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**9. Variable Interest Entities**

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

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

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

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

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

Our significant VIEs are summarized below. We define a significant interest in a VIE as a subordinated interest that exposes us to a significant portion, but not the majority, of the VIE's expected losses or residual returns, even though we do not have the power to direct the activities that most significantly impact the entity's economic performance. KCC and KPP principal investments are newly assessed VIEs under the amended consolidation guidance. Additional information on the amended consolidation guidance is provided in Note 1 (Basis of Presentation and Accounting Policies).

**LIHTC investments.** Through KCDC, we have made investments directly and indirectly in LIHTC operating partnerships formed by third parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated with the underlying properties. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly influence the economic performance of their respective partnerships and have the obligation to absorb expected losses and the right to receive residual returns. As we are not the primary beneficiary of these investments, we do not consolidate them.

Our maximum exposure to loss in connection with these partnerships consists of our unamortized investment balance plus any unfunded equity commitments and tax credits claimed but subject to recapture. We had \$1.1 billion of investments in LIHTC operating partnerships at March 31, 2016, and December 31, 2015, and \$941 million at March 31, 2015. These investments are recorded in accrued income and other assets on our balance sheet. We do not have any loss reserves recorded related to these investments because we believe the likelihood of any loss is remote. For all legally binding unfunded equity commitments, we increase our recognized investment and recognize a liability. As of March 31, 2016, December 31, 2015, and March 31, 2015, we had liabilities of \$390 million, \$410 million, and \$292 million, respectively, related to investments in qualified affordable housing projects, which are recorded in accrued expenses and other liabilities on our balance sheet. We continue to invest in these LIHTC operating partnerships.



The assets and liabilities presented in the table below convey the size of KCDC's direct and indirect investments at March 31, 2016, December 31, 2015, and March 31, 2015. As these investments represent unconsolidated VIEs, the assets and liabilities of the investments themselves are not recorded on our balance sheet. During 2015, we noted that not all of KCDC's unconsolidated VIEs were captured in the table below. As a result, the amounts in the table were revised to incorporate all of KCDC's unconsolidated VIEs for the quarter ended March 31, 2015. Because our LIHTC investments were appropriately accounted for, these revisions did not impact our financial condition or results of operations for the quarter ended March 31, 2015.

| <i>in millions</i>       |                         | <b>Unconsolidated VIEs</b>   |                                     |
|--------------------------|-------------------------|------------------------------|-------------------------------------|
|                          | <b>Total<br/>Assets</b> | <b>Total<br/>Liabilities</b> | <b>Maximum<br/>Exposure to Loss</b> |
| <b>March 31, 2016</b>    |                         |                              |                                     |
| LIHTC investments        | <b>\$ 4,938</b>         | <b>\$ 1,379</b>              | <b>\$ 1,283</b>                     |
| <b>December 31, 2015</b> |                         |                              |                                     |
| LIHTC investments        | \$ 4,914                | \$ 1,368                     | \$ 1,332                            |
| <b>March 31, 2015</b>    |                         |                              |                                     |
| LIHTC investments        | \$ 4,357                | \$ 881                       | \$ 1,118                            |

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We amortize our LIHTC investments over the period that we expect to receive the tax benefits. During the first three months of 2016, we recognized \$33 million of amortization and \$33 million of tax credits associated with these investments within income taxes on our income statement. During the first three months of 2015, we recognized \$25 million of amortization and \$28 million of tax credits associated with these investments within income taxes on our income statement.

**Principal investments.** Through our principal investing entity, KCC, we have made investments in private equity funds engaged in venture- and growth-oriented investing. As a limited partner to these funds, KCC records these investments at fair value and receives distributions from the funds in accordance with the funds' partnership agreements. We are not the primary beneficiary of these investments as we do not hold the power to direct the activities that most significantly affect the funds' economic performance. Such power rests with the funds' general partners. In addition, we neither have the obligation to absorb the funds' expected losses nor the right to receive their residual returns. Our voting rights are also disproportionate to our economic interests, and substantially all of the funds' activities are conducted on behalf of investors with disproportionately few voting rights. Because we are not the primary beneficiary of these investments, we do not consolidate them.

Our maximum exposure to loss associated with indirect principal investments consists of the investments' fair value plus any unfunded equity commitments. The fair value of our indirect principal investments totaled \$229 million, \$235 million, and \$301 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively. These investments are recorded in other investments on our balance sheet. Additional information on indirect principal investments is provided in Note 5 ( Fair Value Measurements ). The table below reflects the size of the private equity funds in which KCC was invested as well as our maximum exposure to loss in connection with these investments at March 31, 2016.

| <i>in millions</i>       | Unconsolidated VIEs |                   |                          |
|--------------------------|---------------------|-------------------|--------------------------|
|                          | Total Assets        | Total Liabilities | Maximum Exposure to Loss |
| <b>March 31, 2016</b>    |                     |                   |                          |
| KCC indirect investments | \$ 43,337           | \$ 325            | \$ 279                   |

**Other unconsolidated VIEs.** We are involved with other various entities in the normal course of business that we have determined to be VIEs. We have determined that we are not the primary beneficiary of these partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance. Our assets associated with these unconsolidated VIEs totaled \$154 million at March 31, 2016, \$176 million at December 31, 2015, and \$187 million at March 31, 2015, and primarily consisted of our investments in these entities. These assets are recorded in accrued income and other assets, other investments, and securities available for sale on our balance sheet. Our liabilities associated with these unconsolidated VIEs totaled less than \$1 million at March 31, 2016, December 31, 2015, and March 31, 2015, and consisted of our unfunded commitments to these entities. These liabilities are recorded in accrued expenses and other liabilities on our balance sheet.

**Consolidated VIEs.** Through our principal investing entity, KPP, we have formed and funded operating entities that provide management and other related services to our investment company funds, which directly invest in portfolio companies. In return for providing services to our direct investment funds, these entities receive a minority equity interest in the funds. This minority equity ownership is recorded at fair value on the entities' financial statements. Additional information on our direct principal investments is provided in Note 5 ( Fair Value Measurements ). While other equity investors manage the daily operations of these entities, we retain the power, through voting rights, to

direct the activities of the entities that most significantly impact their economic performance. In addition, we have the obligation to absorb losses and the right to receive residual returns that could potentially be significant to the entities. As a result, we have determined that we are the primary beneficiary of these funds and have consolidated them since formation. The assets of these KPP entities that can only be used to settle the entities' obligations totaled \$5 million, \$7 million, and \$5 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively. These assets are recorded in cash and due from banks and accrued income and other assets on our balance sheet. The entities had no liabilities at March 31, 2016, December 31, 2015, and March 31, 2015, and other equity investors have no recourse to our general credit.

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**10. Income Taxes**

**Income Tax Provision**

In accordance with the applicable accounting guidance, the principal method established for computing the provision for income taxes in interim periods requires us to make our best estimate of the effective tax rate expected to be applicable for the full year. This estimated effective tax rate is then applied to interim consolidated pre-tax operating income to determine the interim provision for income taxes.

The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 23.0% for the first quarter of 2016 and 24.4% for the first quarter of 2015. The effective tax rates are below our combined federal and state statutory tax rate of 37.2% primarily due to income from investments in tax-advantaged assets such as corporate-owned life insurance and credits associated with renewable energy and low-income housing investments.

**Deferred Tax Asset**

At March 31, 2016, from continuing operations, we had a net federal deferred tax asset of \$94 million and a net state deferred tax asset of \$13 million, compared to a net federal deferred tax asset of \$269 million and a net state deferred tax asset of \$30 million at December 31, 2015, and a net federal deferred tax asset of \$88 million and a net state deferred tax asset of \$13 million at March 31, 2015, included in accrued income and other assets on the balance sheet. To determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded, we conduct a quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior periods, projected future taxable income, and projected future reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo change. Based on these criteria, we had a valuation allowance of less than \$1 million at March 31, 2016, December 31, 2015, and March 31, 2015, associated with certain state net operating loss carryforwards and state credit carryforwards.

**Unrecognized Tax Benefits**

As permitted under the applicable accounting guidance for income taxes, it is our policy to recognize interest and penalties related to unrecognized tax benefits in income tax expense.

Deferred tax assets were reduced in the financial statements for unrecognized tax benefits by \$2.7 million at March 31, 2016, \$2.7 million at December 31, 2015, and \$1 million at March 31, 2015.

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**Table of Contents****11. Acquisitions and Discontinued Operations****Acquisitions**

**First Niagara Financial Group, Inc.** On October 30, 2015, we announced that KeyCorp entered into a definitive agreement and plan of merger ( Agreement ) pursuant to which it will acquire all of the outstanding capital stock of First Niagara. Under the terms of the Agreement, at the effective time of the merger, each share of First Niagara common stock will be converted into the right to receive (i) 0.680 of a share of KeyCorp common stock and (ii) \$2.30 in cash. The exchange ratio of KeyCorp stock for First Niagara stock is fixed and will not adjust based on changes in KeyCorp's share trading price. First Niagara equity awards outstanding immediately prior to the effective time of the merger will be converted into equity awards for KeyCorp common stock as provided in the Agreement. Each share of First Niagara's Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series B, will be converted into a share of a newly created series of preferred stock of KeyCorp having substantially the same terms as First Niagara's preferred stock. Based on the closing price of KeyCorp common shares on Thursday, October 29, 2015, of \$13.38 and assuming First Niagara has 356.272 million shares outstanding on a fully-diluted basis, the value of the total consideration to be paid by KeyCorp pursuant to the Agreement is approximately \$4.1 billion.

The merger was approved by KeyCorp's shareholders and First Niagara's stockholders at their respective special meetings held on March 23, 2016. On April 28, 2016, KeyCorp and First Niagara entered into an agreement with Northwest Bank, a wholly-owned subsidiary of Northwest Bancshares, Inc., to sell 18 branches in the Buffalo, New York market. The branches are being divested in connection with the pending merger between First Niagara and KeyCorp and pursuant to an agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System following a customary antitrust review in connection with the proposed merger. The merger is currently expected to be completed during the third quarter of 2016 and is subject to customary closing conditions including the approval of regulators.

As of March 31, 2016, First Niagara, headquartered in Buffalo, New York, had approximately 390 branches with \$40 billion of total assets and \$30 billion of deposits.

**Discontinued operations**

**Education lending.** In September 2009, we decided to exit the government-guaranteed education lending business. As a result, we have accounted for this business as a discontinued operation.

As of January 1, 2010, we consolidated our 10 outstanding education lending securitization trusts since we held the residual interests and are the master servicer with the power to direct the activities that most significantly influence the economic performance of the trusts.

On September 30, 2014, we sold the residual interests in all of our outstanding education lending securitization trusts to a third party for \$57 million. In selling the residual interests, we no longer have the obligation to absorb losses or the right to receive benefits related to the securitization trusts. Therefore, in accordance with the applicable accounting guidance, we deconsolidated the securitization trusts and removed trust assets of \$1.7 billion and trust liabilities of \$1.6 billion from our balance sheet at September 30, 2014. We continue to service the securitized loans in eight of the securitization trusts and receive servicing fees, whereby we are adequately compensated, as well as remain a counterparty to derivative contracts with three of the securitization trusts. We retained interests in the securitization trusts through our ownership of an insignificant percentage of certificates in two of the securitization trusts and two interest-only strips in one of the securitization trusts. These retained interests were remeasured at fair value on September 30, 2014, and their fair value of \$1 million was recorded in discontinued assets on our balance sheet. These

assets were valued using a similar approach and inputs that have been used to value the education loan securitization trust loans and securities, which are further discussed later in this note.

Income (loss) from discontinued operations, net of taxes on the income statement includes (i) the changes in fair value of the portfolio loans at fair value (discussed later in this note), and (ii) the interest income and expense from the loans in portfolio at both amortized cost and fair value. These amounts are shown separately in the following table. Gains and losses attributable to changes in fair value are recorded as a component of noninterest income or noninterest expense. Interest income and interest expense related to the loans and securities are included as components of net interest income.

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The components of income (loss) from discontinued operations, net of taxes for the education lending business are as follows:

| <i>in millions</i>  | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| Net interest income   | \$ 7                                | \$ 10       |
| Provision for credit losses   | 2                                   | 2           |
| Net interest income after provision for credit losses                   | 5                                   | 8           |
| Noninterest income  | 1                                   | 4           |
| Noninterest expense   | 5                                   | 4           |
| Income (loss) before income taxes                                       | 1                                   | 8           |
| Income taxes  |                                     | 3           |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup> | \$ 1                                | \$ 5        |

(a) Includes after-tax charges of \$6 million for each of the three-month periods ended March 31, 2016, and March 31, 2015, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The discontinued assets of our education lending business included on the balance sheet are as follows. There were no discontinued liabilities for the periods presented below.

| <i>in millions</i>                           | <b>March 31,</b> | <b>December 31,</b> | <b>March 31,</b> |
|--|------------------|---------------------|------------------|
|  | <b>2016</b>      | <b>2015</b>         | <b>2015</b>      |
| Held-to-maturity securities                  | \$ 1             | \$ 1                | \$ 1             |
| Portfolio loans at fair value                | 3                | 4                   | 187              |
| Loans, net of unearned income <sup>(a)</sup> | 1,757            | 1,824               | 2,032            |
| Less: Allowance for loan and lease losses    | 24               | 28                  | 25               |
| Net loans                                    | 1,736            | 1,800               | 2,194            |
| Accrued income and other assets              | 29               | 30                  | 36               |
| Total assets                                 | \$ 1,766         | \$ 1,831            | \$ 2,231         |

(a) At March 31, 2016, December 31, 2015, and March 31, 2015, unearned income was less than \$1 million. The discontinued education lending business consisted of loans in portfolio (recorded at fair value) and loans in portfolio (recorded at carrying value with appropriate valuation reserves). As of June 30, 2015, we decided to sell the portfolio loans that are recorded at fair value, which were subsequently sold during the fourth quarter of 2015.

At March 31, 2016, education loans included 2,012 TDRs with a recorded investment of approximately \$21 million (pre-modification and post-modification). A specifically allocated allowance of \$2 million was assigned to these loans as of March 31, 2016. At December 31, 2015, education loans included 1,901 TDRs with a recorded investment of approximately \$21 million (pre-modification and post-modification). A specifically allocated allowance of \$2 million was assigned to these loans as of December 31, 2015. At March 31, 2015, education loans included 1,604 TDRs with a recorded investment of approximately \$18 million (pre-modification and post-modification). A specifically allocated allowance of \$1 million was assigned to these loans at March 31, 2015. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 5 ( Asset Quality ).

On June 27, 2014, we purchased the private loans from one of the education loan securitization trusts through the execution of a clean-up call option. The trust used the cash proceeds from the sale of these loans to retire the outstanding securities related to these private loans, and there are no future commitments or obligations to the holders of the securities. The portfolio loans were valued using an internal discounted cash flow method, which was affected by assumptions for defaults, expected credit losses, discount rates, and prepayments. The portfolio loans are considered to be Level 3 assets since we rely on unobservable inputs when determining fair value.

In June 2015, we transferred \$179 million of loans that were previously purchased from three of the outstanding securitizations trusts pursuant to the legal terms of those particular trusts to held for sale and accounted for them at fair value. These portfolio loans held for sale were valued based on indicative bids to sell the loans. These portfolio loans were previously valued using an internal discounted cash flow model, which was affected by assumptions for defaults, loss severity, discount rates, and prepayments. These loans were considered Level 3 assets since we relied on unobservable



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inputs when determining their fair value. Our valuation process for these loans prior to June 2015 is discussed in more detail below. On October 29, 2015, government-guaranteed loans were sold for \$117 million. On December 8, 2015, private loans were sold for \$45 million. The gain on the sales of these loans was \$1 million. The remaining portfolio loans held for sale, totaling \$4 million, were reclassified to portfolio loans at fair value at December 31, 2015. Portfolio loans accounted for at fair value were \$3 million at March 31, 2016.

Corporate Treasury, within our Finance area, was responsible for the quarterly valuation process that previously determined the fair value of our student loans held in portfolio that were accounted for at fair value. Corporate Treasury provided these fair values to a Working Group Committee (the Working Group) comprising representatives from the line of business, Credit and Market Risk Management, Accounting, Business Finance (part of our Finance area), and Corporate Treasury. The Working Group was a subcommittee of the Fair Value Committee that is discussed in more detail in Note 5 (Fair Value Measurements). The Working Group reviewed all significant inputs and assumptions and approved the resulting fair values.

The Working Group reviewed actual performance trends of the loans on a quarterly basis and used statistical analysis and qualitative measures to determine assumptions for future performance. Predictive models that incorporate delinquency and charge-off trends along with economic outlooks assisted the Working Group to forecast future defaults. The Working Group used this information to formulate the credit outlook related to the loans. Higher projected defaults, fewer expected recoveries, elevated prepayment speeds, and higher discount rates would be expected to result in a lower fair value of the portfolio loans. Default expectations and discount rate changes had the most significant impact on the fair values of the loans. Increased cash flow uncertainty, whether through higher defaults and prepayments or fewer recoveries, can result in higher discount rates for use in the fair value process for these loans.

The valuation process for the portfolio loans that were accounted for at fair value was based on a discounted cash flow analysis using a model purchased from a third party and maintained by Corporate Treasury. The valuation process began with loan-level data that was aggregated into pools based on underlying loan structural characteristics (i.e., current unpaid principal balance, contractual term, interest rate). Cash flows for these loan pools were developed using a financial model that reflected certain assumptions for defaults, recoveries, status changes, and prepayments. A net earnings stream, taking into account cost of funding, was calculated and discounted back to the measurement date using an appropriate discount rate. This resulting amount was used to determine the present value of the loans, which represented their fair value to a market participant.

The unobservable inputs set forth in the following table were reviewed and approved by the Working Group on a quarterly basis. As of December 31, 2015, the portfolio loans accounted for at fair value were valued based on the indicative bids we received when we sold \$162 million of these loans in late 2015.

A quarterly variance analysis reconciled valuation changes in the model used to calculate the fair value of the portfolio loans at fair value. This quarterly analysis considered loan run-off, yields, and future default and recovery changes. We also performed back-testing to compare expected defaults to actual experience; the impact of future defaults could significantly affect the fair value of these loans over time. In addition, our internal model validation group periodically performed a review to ensure the accuracy and validity of the model for determining the fair value of these loans.

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The following table shows the significant unobservable inputs used to measure the fair value of the portfolio loans accounted for at fair value as of March 31, 2016, December 31, 2015, and March 31, 2015:

**March 31, 2016**

| <i>dollars in million</i>                   | Fair Value of Level 3 Assets and Liabilities | Valuation Technique | Significant Unobservable Input | Range (Weighted-Average) |
|---|--|---------------------|--------------------------------|--------------------------|
| Portfolio loans accounted for at fair value | \$ 3   | Market approach     | Indicative bids                | 84.50-104.00%            |

**December 31, 2015**

| <i>dollars in millions</i>                  | Fair Value of Level 3 Assets and Liabilities | Valuation Technique | Significant Unobservable Input | Range (Weighted-Average) |
|---|--|---------------------|--------------------------------|--------------------------|
| Portfolio loans accounted for at fair value | \$ 4   | Market approach     | Indicative bids                | 84.50-104.00%            |

**March 31, 2015**

| <i>dollars in millions</i>                  | Fair Value of Level 3 Assets and Liabilities | Valuation Technique  | Significant Unobservable Input | Range (Weighted-Average) |
|---|--|----------------------|--------------------------------|--------------------------|
| Portfolio loans accounted for at fair value | \$ 187                                       | Discounted cash flow | Prepayment speed               | 5.40-10.20% (7.04%)      |
|   |  |                      | Loss severity                  | 2.00-77.00% (27.66%)     |
|   |  |                      | Discount rate                  | 3.70-3.80% (3.71%)       |
|   |  |                      | Default rate                   | 1.40-1.70% (1.60%)       |

The following table shows the principal and fair value amounts for our portfolio loans at carrying value and portfolio loans at fair value at March 31, 2016, December 31, 2015, and March 31, 2015. Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest are disclosed in Note 1 ( Summary of Significant Accounting Policies ) under the heading Nonperforming Loans beginning on page 121 of our 2015 Form 10-K.

| <i>in millions</i>                | March 31, 2016 |            | December 31, 2015 |            | March 31, 2015 |            |
|-----------------------------------|----------------|------------|-------------------|------------|----------------|------------|
|                                   | Principal      | Fair Value | Principal         | Fair Value | Principal      | Fair Value |
| Portfolio loans at carrying value |                |            |                   |            |                |            |

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|   |              |            |       |      |       |      |
|---|--------------|------------|-------|------|-------|------|
| Accruing loans past due 90 days or more | <b>\$ 23</b> | <b>N/A</b> | \$ 26 | N/A  | \$ 27 | N/A  |
| Loans placed on nonaccrual status       | <b>6</b>     | <b>N/A</b> | 8     | N/A  | 8     | N/A  |
| Portfolio loans at fair value           |              |            |       |      |       |      |
| Accruing loans past due 90 days or more |              |            | \$ 1  | \$ 1 | \$ 5  | \$ 5 |
| Loans placed on nonaccrual status       |              |            |       |      |       |      |

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The following table shows the portfolio loans at fair value and their related contractual amounts as of March 31, 2016, December 31, 2015, and March 31, 2015.

| <i>in millions</i> | <b>March 31,<br/>2016</b>     |                       | <b>December<br/>31, 2015</b>  |                       | <b>March 31, 2015</b>         |                       |
|--------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|-------------------------------|-----------------------|
|                    | <b>Contractual<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Contractual<br/>Amount</b> | <b>Fair<br/>Value</b> | <b>Contractual<br/>Amount</b> | <b>Fair<br/>Value</b> |
| <b>ASSETS</b>      |                               |                       |                               |                       |                               |                       |
| Portfolio loans    | \$ 3                          | \$ 3                  | \$ 4                          | \$ 4                  | \$ 186                        | \$ 187                |

The following tables present the assets of the portfolio loans measured at fair value on a recurring basis at March 31, 2016, December 31, 2015, and March 31, 2015.

**March 31, 2016***in millions*

|   | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---|----------------|----------------|----------------|--------------|
| <b>ASSETS MEASURED ON A RECURRING BASIS</b>     |                |                |                |              |
| Portfolio loans                                 |                |                | \$ 3           | \$ 3         |
| Total assets on a recurring basis at fair value |                |                | \$ 3           | \$ 3         |

**December 31, 2015***in millions*

|   | <b>Level<br/>1</b> | <b>Level<br/>2</b> | <b>Level<br/>3</b> | <b>Total</b> |
|---|--------------------|--------------------|--------------------|--------------|
| <b>ASSETS MEASURED ON A RECURRING BASIS</b>     |                    |                    |                    |              |
| Portfolio loans                                 |                    |                    | \$ 4               | \$ 4         |
| Total assets on a recurring basis at fair value |                    |                    | \$ 4               | \$ 4         |

**March 31, 2015***in millions*

|   | <b>Level<br/>1</b> | <b>Level<br/>2</b> | <b>Level<br/>3</b> | <b>Total</b> |
|---|--------------------|--------------------|--------------------|--------------|
| <b>ASSETS MEASURED ON A RECURRING BASIS</b>     |                    |                    |                    |              |
| Portfolio loans                                 |                    |                    | \$ 187             | \$ 187       |
| Total assets on a recurring basis at fair value |                    |                    | \$ 187             | \$ 187       |

The following table shows the change in the fair values of the Level 3 portfolio loans held for sale, portfolio loans, and consolidated education loan securitization trusts for the three-month periods ended March 31, 2016, and March 31, 2015.

*in millions*

|  | <b>Portfolio<br/>Student<br/>Loans</b> |
|--|--|
| Balance at December 31, 2015                         | \$ 4                                   |
| Settlements  | (1)                                    |
| Balance at March 31, 2016 <sup>(a)</sup>             | \$ 3                                   |
| Balance at December 31, 2014                         | \$ 191                                 |
| Gains (losses) recognized in earnings <sup>(b)</sup> | 3                                      |
| Settlements  | (7)                                    |
| Balance at March 31, 2015 <sup>(a)</sup>             | \$ 187                                 |

- (a) There were no purchases, sales, issuances, gains (losses) recognized in earnings, transfers into Level 3, or transfers out of Level 3 for the three-month period ended March 31, 2016. There were no purchases, sales, issuances, transfers into Level 3, or transfers out of Level 3 for the three-month period ended March 31, 2015.
- (b) Gains (losses) were driven primarily by fair value adjustments.

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**Austin Capital Management, Ltd.** In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result, we have accounted for this business as a discontinued operation.

There was no income related to Austin for the three-month periods ended March 31, 2016, and March 31, 2015.

The discontinued assets of Austin included on the balance sheet are as follows. There were no discontinued liabilities for the periods presented below.

| <i>in millions</i>      | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|-------------------------|---------------------------|------------------------------|---------------------------|
| Cash and due from banks | \$ 15                     | \$ 15                        | \$ 15                     |
| Total assets            | \$ 15                     | \$ 15                        | \$ 15                     |

**Combined discontinued operations.** The combined results of the discontinued operations are as follows:

| <i>in millions</i>  | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2016</b>                         | <b>2015</b> |
| Net interest income   | \$ 7                                | \$ 10       |
| Provision for credit losses   | 2                                   | 2           |
| Net interest income after provision for credit losses                   | 5                                   | 8           |
| Noninterest income  | 1                                   | 4           |
| Noninterest expense   | 5                                   | 4           |
| Income (loss) before income taxes                                       | 1                                   | 8           |
| Income taxes  |                                     | 3           |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup> | \$ 1                                | \$ 5        |

(a) Includes after-tax charges of \$6 million for each of the three-month periods ended March 31, 2016, and March 31, 2015, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The combined assets of the discontinued operations are as follows. There were no discontinued liabilities for the periods presented below.

| <i>in millions</i> | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--------------------|---------------------------|------------------------------|---------------------------|
|--------------------|---------------------------|------------------------------|---------------------------|

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|  |          |          |          |
|--|----------|----------|----------|
| Cash and due from banks                      | \$ 15    | \$ 15    | \$ 15    |
| Held-to-maturity securities                  | 1        | 1        | 1        |
| Portfolio loans at fair value                | 3        | 4        | 187      |
| Loans, net of unearned income <sup>(a)</sup> | 1,757    | 1,824    | 2,032    |
| Less: Allowance for loan and lease losses    | 24       | 28       | 25       |
| Net loans                                    | 1,736    | 1,800    | 2,194    |
| Accrued income and other assets              | 29       | 30       | 36       |
| Total assets                                 | \$ 1,781 | \$ 1,846 | \$ 2,246 |

(a) At March 31, 2016, December 31, 2015, and March 31, 2015, unearned income was less than \$1 million.

**Table of Contents****12. Securities Financing Activities**

We enter into repurchase and reverse repurchase agreements and securities borrowed transactions (securities financing agreements) primarily to finance our inventory positions, acquire securities to cover short positions, and to settle other securities obligations. We account for these securities financing agreements as collateralized financing transactions. Repurchase and reverse repurchase agreements are recorded on the balance sheet at the amounts that the securities will be subsequently sold or repurchased. Securities borrowed transactions are recorded on the balance sheet at the amounts of cash collateral advanced. While our securities financing agreements incorporate a right of set off, the assets and liabilities are reported on a gross basis. Reverse repurchase agreements and securities borrowed transactions are included in short-term investments on the balance sheet; repurchase agreements are included in federal funds purchased and securities sold under repurchase agreements.

The following table summarizes our securities financing agreements at March 31, 2016, December 31, 2015, and March 31, 2015:

| <b>March 31, 2016</b>                       |  |   |                                  |                        |
|---|--|---|----------------------------------|------------------------|
| <i>in millions</i>                          | <b>Gross Amount<br/>Presented<br/>in<br/>Balance<br/>Sheet</b> | <b>Netting<br/>Adjustments <sup>(a)</sup></b> | <b>Collateral <sup>(b)</sup></b> | <b>Net<br/>Amounts</b> |
| <b>Offsetting of financial assets:</b>      |  |   |                                  |                        |
| Reverse repurchase agreements               | \$ 3   | (2)   | \$ (1)                           |                        |
| <b>Total</b>                                | <b>\$ 3</b>  | <b>\$ (2)</b>                                 | <b>\$ (1)</b>                    |                        |
| <b>Offsetting of financial liabilities:</b> |  |   |                                  |                        |
| Repurchase agreements <sup>(c)</sup>        | \$ 2   | \$ (2)  |                                  |                        |
| <b>Total</b>                                | <b>\$ 2</b>  | <b>\$ (2)</b>                                 |                                  |                        |

| <b>December 31, 2015</b>                    |  |   |                                  |                        |
|---|--|---|----------------------------------|------------------------|
| <i>in millions</i>                          | <b>Gross<br/>Amount<br/>Presented<br/>in<br/>Balance<br/>Sheet</b> | <b>Netting<br/>Adjustments <sup>(a)</sup></b> | <b>Collateral <sup>(b)</sup></b> | <b>Net<br/>Amounts</b> |
| <b>Offsetting of financial assets:</b>      |  |   |                                  |                        |
| Reverse repurchase agreements               | \$ 1   |   | \$ (1)                           |                        |
| <b>Total</b>                                | <b>\$ 1</b>  |   | <b>\$ (1)</b>                    |                        |
| <b>Offsetting of financial liabilities:</b> |  |   |                                  |                        |
| Repurchase agreements <sup>(c)</sup>        |  |   |                                  |                        |



Total

March 31, 2015

| <i>in millions</i>                          | <b>Gross<br/>Amount<br/>Presented<br/>in<br/>Balance<br/>Sheet</b> | <b>Netting<br/>Adjustments <sup>(a)</sup></b> | <b>Collateral <sup>(b)</sup></b> | <b>Net<br/>Amounts</b> |
|---|--|---|----------------------------------|------------------------|
| <b>Offsetting of financial assets:</b>      |  |   |                                  |                        |
| Reverse repurchase agreements               | \$ 2   | \$ (2)  |                                  |                        |
| <b>Total</b>                                | <b>\$ 2</b>  | <b>\$ (2)</b>                                 |                                  |                        |
| <b>Offsetting of financial liabilities:</b> |  |   |                                  |                        |
| Repurchase agreements                       | \$ 4   | \$ (2)  | \$ (2)                           |                        |
| <b>Total</b>                                | <b>\$ 4</b>  | <b>\$ (2)</b>                                 | <b>\$ (2)</b>                    |                        |

- (a) Netting adjustments take into account the impact of master netting agreements that allow us to settle with a single counterparty on a net basis.
- (b) These adjustments take into account the impact of bilateral collateral agreements that allow us to offset the net positions with the related collateral. The application of collateral cannot reduce the net position below zero. Therefore, excess collateral, if any, is not reflected above.
- (c) Repurchase agreements are collateralized by U.S. Treasury securities and contracted on an overnight basis.

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Like other financing transactions, securities financing agreements contain an element of credit risk. To mitigate and manage credit risk exposure, we generally enter into master netting agreements and other collateral arrangements that give us the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Additionally, we establish and monitor limits on our counterparty credit risk exposure by product type. For the reverse repurchase agreements, we monitor the value of the underlying securities we received from counterparties and either request additional collateral or return a portion of the collateral based on the value of those securities. We generally hold collateral in the form of highly rated securities issued by the U.S. Treasury and fixed income securities. In addition, we may need to provide collateral to counterparties under our repurchase agreements and securities borrowed transactions. In general, the collateral we pledge and receive can be sold or repledged by the secured parties.

Table of Contents**13. Employee Benefits****Pension Plans**

Effective December 31, 2009, we amended our cash balance pension plan and other defined benefit plans to freeze all benefit accruals and close the plans to new employees. We will continue to credit participants' existing account balances for interest until they receive their plan benefits. We changed certain pension plan assumptions after freezing the plans.

The components of net pension cost (benefit) for all funded and unfunded plans are as follows:

| <i>in millions</i>             | <b>Three months ended March 31,</b> |             |
|--------------------------------|-------------------------------------|-------------|
|                                | <b>2016</b>                         | <b>2015</b> |
| Interest cost on PBO           | \$ 10                               | \$ 10       |
| Expected return on plan assets | (13)                                | (14)        |
| Amortization of losses         | 4                                   | 4           |
| Net pension cost               | \$ 1                                |             |

**Other Postretirement Benefit Plans**

We sponsor a retiree healthcare plan that all employees age 55 with five years of service (or employees age 50 with 15 years of service who are terminated under conditions that entitle them to a severance benefit) are eligible to participate. Participant contributions are adjusted annually. We may provide a subsidy toward the cost of coverage for certain employees hired before 2001 with a minimum of 15 years of service at the time of termination. We use a separate VEBA trust to fund the retiree healthcare plan.

The components of net postretirement benefit cost for all funded and unfunded plans are as follows:

| <i>in millions</i>              | <b>Three months ended March 31,</b> |             |
|---------------------------------|-------------------------------------|-------------|
|                                 | <b>2016</b>                         | <b>2015</b> |
| Interest cost on APBO           | \$ 1                                | \$ 1        |
| Expected return on plan assets  | (1)                                 | (1)         |
| Net postretirement benefit cost |                                     |             |

**Table of Contents****14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries**

We own the outstanding common stock of business trusts formed by us that issued corporation-obligated mandatorily redeemable trust preferred securities. The trusts used the proceeds from the issuance of their trust preferred securities and common stock to buy debentures issued by KeyCorp. These debentures are the trusts' only assets; the interest payments from the debentures finance the distributions paid on the mandatorily redeemable trust preferred securities. The outstanding common stock of these business trusts is recorded in other investments on our balance sheet.

We unconditionally guarantee the following payments or distributions on behalf of the trusts:

required distributions on the trust preferred securities;

the redemption price when a capital security is redeemed; and

the amounts due if a trust is liquidated or terminated.

The Regulatory Capital Rules, discussed in Supervision and regulation in Item 2 of this report, implement a phase-out of trust preferred securities as Tier 1 capital, consistent with the requirements of the Dodd-Frank Act. For standardized approach banking organizations such as Key, the phase-out period began on January 1, 2015, and starting in 2016 requires us to treat our mandatorily redeemable trust preferred securities as Tier 2 capital.

The trust preferred securities, common stock, and related debentures are summarized as follows:

| <i>dollars in millions</i> | <b>Trust Preferred Securities, Net of Discount <sup>(a)</sup></b> | <b>Common Stock</b> | <b>Principal Amount of Debentures, Net of Discount <sup>(b)</sup></b> | <b>Interest Rate of Trust Preferred Securities and Debentures <sup>(c)</sup></b> | <b>Maturity of Trust Preferred Securities and Debentures</b> |
|----------------------------|---|---------------------|---|--|--|
| March 31, 2016             |   |                     |   |  |  |
| KeyCorp Capital I          | \$ 156  | \$ 6                | \$ 162  | 1.352%   | 2028   |
| KeyCorp Capital II         | 112   | 4                   | 116   | 6.875  | 2029   |
| KeyCorp Capital III        | 150   | 4                   | 154   | 7.750  | 2029   |
| <b>Total</b>               | <b>\$ 418</b>   | <b>\$ 14</b>        | <b>\$ 432</b>   | <b>5.128%</b>  |  |
| December 31, 2015          | \$ 408  | \$ 14               | \$ 422  | 4.961%   |  |
| March 31, 2015             | \$ 414  | \$ 14               | \$ 428  | 4.968%   |  |

(a) The trust preferred securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of trust preferred securities carries an interest rate identical to that of the related

debenture. Certain trust preferred securities include basis adjustments related to fair value hedges totaling \$78 million at March 31, 2016, \$68 million at December 31, 2015, and \$74 million at March 31, 2015. See Note 7 ( Derivatives and Hedging Activities ) for an explanation of fair value hedges.

- (b) We have the right to redeem these debentures. If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (i) the principal amount, plus any accrued but unpaid interest, or (ii) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points for KeyCorp Capital II or 25 basis points for KeyCorp Capital III or 50 basis points in the case of redemption upon either a tax or a capital treatment event for either KeyCorp Capital II or KeyCorp Capital III, plus any accrued but unpaid interest. The principal amount of certain debentures includes basis adjustments related to fair value hedges totaling \$78 million at March 31, 2016, \$68 million at December 31, 2015, and \$74 million at March 31, 2015. See Note 7 for an explanation of fair value hedges. The principal amount of debentures, net of discounts, is included in long-term debt on the balance sheet.
- (c) The interest rates for the trust preferred securities issued by KeyCorp Capital II and KeyCorp Capital III are fixed. The trust preferred securities issued by KeyCorp Capital I have a floating interest rate, equal to three-month LIBOR plus 74 basis points, that reprices quarterly. The total interest rates are weighted-average rates.

**Table of Contents****15. Contingent Liabilities and Guarantees****Legal Proceedings**

See Note 20 ( Commitments, Contingent Liabilities and Guarantees ) under the heading Legal Proceedings on page 211 of our 2015 Form 10-K for a description of a proceeding styled *In re: Checking Account Overdraft Litigation*.

**Other litigation.** From time to time, in the ordinary course of business, we and our subsidiaries are subject to various other litigation, investigations, and administrative proceedings. Private, civil litigations may range from individual actions involving a single plaintiff to putative class action lawsuits with potentially thousands of class members. Investigations may involve both formal and informal proceedings, by both government agencies and self-regulatory bodies. These other matters may involve claims for substantial monetary relief. At times, these matters may present novel claims or legal theories. Due to the complex nature of these various other matters, it may be years before some matters are resolved. While it is impossible to ascertain the ultimate resolution or range of financial liability, based on information presently known to us, we do not believe there is any other matter to which we are a party, or involving any of our properties that, individually or in the aggregate, would reasonably be expected to have a material adverse effect on our financial condition. We continually monitor and reassess the potential materiality of these other litigation matters. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter, or a combination of matters, may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

**Guarantees**

We are a guarantor in various agreements with third parties. The following table shows the types of guarantees that we had outstanding at March 31, 2016. Information pertaining to the basis for determining the liabilities recorded in connection with these guarantees is included in Note 1 ( Summary of Significant Accounting Policies ) under the heading Guarantees beginning on page 130 of our 2015 Form 10-K.

| <b>March 31, 2016</b>                           | <b>Maximum Potential<br/>Undiscounted</b> |                               |
|---|---|-------------------------------|
| <i>in millions</i>                              | <b>Future<br/>Payments</b>                | <b>Liability<br/>Recorded</b> |
| <b>Financial guarantees:</b>                    |   |                               |
| Standby letters of credit                       | \$ 11,234                                 | \$ 67                         |
| Recourse agreement with FNMA                    | 1,849                                     | 4                             |
| Return guarantee agreement with LIHTC investors | 4   | 4                             |
| Written put options <sup>(a)</sup>              | 2,411                                     | 82                            |
| <b>Total</b>                                    | <b>\$ 15,498</b>                          | <b>\$ 157</b>                 |

(a) The maximum potential undiscounted future payments represent notional amounts of derivatives qualifying as guarantees.

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0% to 30% probability of payment), moderate (greater than 30% to 70% probability of payment), or high (greater than 70% probability of payment) to assess the payment/performance risk, and have determined that the payment/performance risk associated with each type of guarantee outstanding at March 31, 2016, is low.

***Standby letters of credit.*** KeyBank issues standby letters of credit to address clients' financing needs. These instruments obligate us to pay a specified third party when a client fails to repay an outstanding loan or debt instrument or fails to perform some contractual nonfinancial obligation. Any amounts drawn under standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the same credit risk to us as a loan. At March 31, 2016, our standby letters of credit had a remaining weighted-average life of 2.4 years, with remaining actual lives ranging from less than one year to as many as 11 years.

***Recourse agreement with FNMA.*** We participate as a lender in the FNMA Delegated Underwriting and Servicing program. FNMA delegates responsibility for originating, underwriting, and servicing mortgages, and we assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximates the fair value of our liability. At March 31, 2016, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 7.6 years, and the unpaid

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principal balance outstanding of loans sold by us as a participant was \$6.4 billion. The maximum potential amount of undiscounted future payments that we could be required to make under this program, as shown in the preceding table, is equal to approximately 30% of the principal balance of loans outstanding at March 31, 2016. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan; any loss we incur could be offset by the amount of any recovery from the collateral.

***Return guarantee agreement with LIHTC investors.*** KAHC, a subsidiary of KeyBank, offered limited partnership interests to qualified investors. Partnerships formed by KAHC invested in low-income residential rental properties that qualify for federal low-income housing tax credits under Section 42 of the Internal Revenue Code. In certain partnerships, investors paid a fee to KAHC for a guaranteed return that is based on the financial performance of the property and the property's confirmed LIHTC status throughout a 15-year compliance period. Typically, KAHC fulfills these guaranteed returns by distributing tax credits and deductions associated with the specific properties. If KAHC defaults on its obligation to provide the guaranteed return, KeyBank is obligated to make any necessary payments to investors. No recourse or collateral is available to offset our guarantee obligation other than the underlying income streams from the properties and the residual value of the operating partnership interests.

As shown in the previous table, KAHC maintained a reserve in the amount of \$4 million at March 31, 2016, which is sufficient to cover estimated future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounted future payments due to investors for the return on and of their investments.

These guarantees have expiration dates that extend through 2018, but KAHC has not formed any new partnerships under this program since October 2003. Additional information regarding these partnerships is included in Note 9 ( Variable Interest Entities ).

***Written put options.*** In the ordinary course of business, we write put options for clients that wish to mitigate their exposure to changes in interest rates and commodity prices. At March 31, 2016, our written put options had an average life of 3 years. These instruments are considered to be guarantees, as we are required to make payments to the counterparty (the client) based on changes in an underlying variable that is related to an asset, a liability, or an equity security that the client holds. We are obligated to pay the client if the applicable benchmark interest rate or commodity price is above or below a specified level (known as the strike rate). These written put options are accounted for as derivatives at fair value, as further discussed in Note 7 ( Derivatives and Hedging Activities ). We mitigate our potential future payment obligations by entering into offsetting positions with third parties.

Written put options where the counterparty is a broker-dealer or bank are accounted for as derivatives at fair value but are not considered guarantees since these counterparties typically do not hold the underlying instruments. In addition, we are a purchaser and seller of credit derivatives, which are further discussed in Note 7.

***Default guarantees.*** Some lines of business participate in guarantees that obligate us to perform if the debtor (typically a client) fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees for one of two possible reasons: (i) either the risk profile of the debtor should provide an investment return, or (ii) we are supporting our underlying investment in the debtor. We do not hold collateral for the default guarantees. If we were required to make a payment under a guarantee, we would receive a pro rata share should the third party collect some or all of the amounts due from the debtor. At March 31, 2016, we had \$1 million of default guarantees.

**Other Off-Balance Sheet Risk**



Other off-balance sheet risk stems from financial instruments that do not meet the definition of a guarantee as specified in the applicable accounting guidance, and from other relationships.

***Indemnifications provided in the ordinary course of business.*** We provide certain indemnifications, primarily through representations and warranties in contracts that we execute in the ordinary course of business in connection with loan and lease sales and other ongoing activities, as well as in connection with purchases and sales of businesses. We maintain reserves, when appropriate, with respect to liability that reasonably could arise as a result of these indemnities.

***Intercompany guarantees.*** KeyCorp, KeyBank, and certain of our affiliates are parties to various guarantees that facilitate the ongoing business activities of other affiliates. These business activities encompass issuing debt, assuming certain lease and insurance obligations, purchasing or issuing investments and securities, and engaging in certain leasing transactions involving clients.

**Table of Contents****16. Accumulated Other Comprehensive Income**

Our changes in AOCI for the three months ended March 31, 2016, and March 31, 2015, are as follows:

| <i>in millions</i>  | <b>Unrealized gains<br/>(losses) on securities<br/>available<br/>for sale</b> | <b>Unrealized gains<br/>(losses) on derivative<br/>financial instruments</b> | <b>Foreign currency<br/>translation<br/>adjustment</b> | <b>Net pension and<br/>postretirement<br/>benefit<br/>costs</b> | <b>Total</b>    |
|---|---|--|--|---|-----------------|
| Balance at December 31, 2015  | \$ (58)   | \$ 20  | \$ (2)   | \$ (365)  | \$ (405)        |
| Other comprehensive income<br>before reclassification, net of<br>income taxes                                 | <b>128</b>  | <b>72</b>  | <b>5</b>   | <b>(2)</b>  | <b>203</b>      |
| Amounts reclassified from<br>accumulated other<br>comprehensive income, net of<br>income taxes <sup>(a)</sup> |   | <b>(14)</b>  |  | <b>3</b>  | <b>(11)</b>     |
| Net current-period other<br>comprehensive income, net of<br>income taxes                                      | <b>128</b>  | <b>58</b>  | <b>5</b>   | <b>1</b>  | <b>192</b>      |
| Balance at March 31, 2016   | \$ <b>70</b>  | \$ <b>78</b>   | \$ <b>3</b>  | \$ <b>(364)</b>   | \$ <b>(213)</b> |
| Balance at December 31, 2014  | \$ (4)  | \$ (8)   | \$ 22  | \$ (366)  | \$ (356)        |
| Other comprehensive income<br>before reclassification, net of<br>income taxes                                 | 55  | 45   | (13)   |   | 87              |
| Amounts reclassified from<br>accumulated other<br>comprehensive income, net of<br>income taxes <sup>(a)</sup> |   | (13)   |  | 3   | (10)            |
| Net current-period other<br>comprehensive<br>income, net of income taxes                                      | 55  | 32   | (13)   | 3   | 77              |
| Balance at March 31, 2015   | \$ 51   | \$ 24  | \$ 9   | \$ (363)  | \$ (279)        |

(a) See table below for details about these reclassifications.

Our reclassifications out of AOCI for the three months ended March 31, 2016, and March 31, 2015, are as follows:

| <b>Three months ended March 31, 2016</b><br><i>in millions</i>      | <b>Amount Reclassified from<br/>Accumulated Other<br/>Comprehensive Income</b>     | <b>Affected Line Item in the Statement<br/>Where Net Income is Presented</b> |
|---|--|--|
| Unrealized gains (losses) on derivative financial instruments       |  |  |
| Interest rate   | \$ 23  | Interest income    Loans   |
| Interest rate   | (1)  | Interest expense    Long-term debt   |
|   | 22   | Income (loss) from continuing operations before income taxes                 |
|   | 8  | Income taxes   |
|   | \$ 14  | Income (loss) from continuing operations                                     |
| Net pension and postretirement benefit costs Amortization of losses | \$ (4)   | Personnel expense  |
|   | (4)  | Income (loss) from continuing operations before income taxes                 |
|   | (1)  | Income taxes   |
|   | \$ (3)   | Income (loss) from continuing operations                                     |
| <b>Three months ended March 31, 2015</b><br><i>in millions</i>      | <b>Amount Reclassified from<br/>Accumulated Other<br/>Comprehensive<br/>Income</b> | <b>Affected Line Item in the Statement<br/>Where Net Income is Presented</b> |
| Unrealized gains (losses) on derivative financial instruments       |  |  |
| Interest rate   | \$ 22  | Interest income    Loans   |
| Interest rate   | (1)  | Interest expense    Long-term debt   |
|   | 21   | Income (loss) from continuing operations before income taxes                 |
|   | 8  | Income taxes   |
|   | \$ 13  | Income (loss) from continuing operations                                     |
| Net pension and postretirement benefit costs Amortization of losses | \$ (4)   | Personnel expense  |
|   | (4)  | Income (loss) from continuing operations before income taxes                 |
|   | (1)  | Income taxes   |
|   | \$ (3)   | Income (loss) from continuing operations                                     |



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**17. Shareholders Equity**

**Comprehensive Capital Plan**

As previously reported and as authorized by the Board and pursuant to our 2015 capital plan submitted to and not objected to by the Federal Reserve, we have authority to repurchase up to \$725 million of our common shares, which include repurchases to offset issuances of common shares under our employee compensation plans. We suspended common share repurchases in the fourth quarter of 2015 due to the pending acquisition of First Niagara. Share repurchases were included in our 2016 capital plan, which we submitted to the Federal Reserve and provided to the OCC in April 2016 under the annual CCAR process.

Consistent with our 2015 capital plan, the Board declared a quarterly dividend of \$.075 per common share for the first quarter of 2016. An additional planned increase in our quarterly common share dividend, up to \$.085 per share, will be considered by the Board in May of 2016 for the fifth quarter of the 2015 capital plan.

**Preferred Stock**

We made a quarterly dividend payment of \$1.9375 per share, or \$5.6 million, on our Series A Preferred Stock during the first quarter of 2016.

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**18. Line of Business Results**

The specific lines of business that constitute each of the major business segments (operating segments) are described below.

**Key Community Bank**

Key Community Bank serves individuals and small to mid-sized businesses through its 12-state branch network.

Individuals are provided branch-based deposit and investment products, personal finance services, and loans, including residential mortgages, home equity, credit card, and various types of installment loans. In addition, financial, estate and retirement planning, asset management services, and Delaware Trust capabilities are offered to assist high-net-worth clients with their banking, trust, portfolio management, insurance, charitable giving, and related needs.

Small businesses are provided deposit, investment and credit products, and business advisory services. Mid-sized businesses are provided products and services, some of which are delivered by Key Corporate Bank, that include commercial lending, cash management, equipment leasing, investment and employee benefit programs, succession planning, access to capital markets, derivatives, and foreign exchange.

**Key Corporate 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.

**Other Segments**

Other Segments consists of Corporate Treasury, Principal Investing, and various exit portfolios.

**Reconciling Items**

Total assets included under Reconciling Items primarily represent the unallocated portion of nonearning assets of corporate support functions. Charges related to the funding of these assets are part of net interest income and are allocated to the business segments through noninterest expense. Reconciling Items also includes intercompany eliminations and certain items that are not allocated to the business segments because they do not reflect their normal operations.

The table on the following pages shows selected financial data for our major business segments for the three-month periods ended March 31, 2016, and March 31, 2015.

The information was derived from the internal financial reporting system that we use to monitor and manage our financial performance. GAAP guides financial accounting, but there is no authoritative guidance for management accounting the way we use our judgment and experience to make reporting decisions. Consequently, the line of

business results we report may not be comparable to line of business results presented by other companies.

The selected financial data is based on internal accounting policies designed to compile results on a consistent basis and in a manner that reflects the underlying economics of the businesses. In accordance with our policies:

Net interest income is determined by assigning a standard cost for funds used or a standard credit for funds provided based on their assumed maturity, prepayment, and/or repricing characteristics.

Indirect expenses, such as computer servicing costs and corporate overhead, are allocated based on assumptions regarding the extent that each line of business actually uses the services.

The consolidated provision for credit losses is allocated among the lines of business primarily based on their actual net loan charge-offs, adjusted periodically for loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology that we use to estimate our consolidated ALLL. This methodology is described in Note 1 ( Summary of Significant Accounting Policies ) under the heading Allowance for Loan and Lease Losses beginning on page 122 of our 2015 Form 10-K.

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Income taxes are allocated based on the statutory federal income tax rate of 35% and a blended state income tax rate (net of the federal income tax benefit) of 2.2%.

Capital is assigned to each line of business based on economic equity.

Developing and applying the methodologies that we use to allocate items among our lines of business is a dynamic process. Accordingly, financial results may be revised periodically to reflect enhanced alignment of expense base allocation drivers, changes in the risk profile of a particular business, or changes in our organizational structure.



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| Three months ended March 31,<br><i>dollars in millions</i>           | Key Community Bank |           | Key Corporate Bank |           |
|--|--------------------|-----------|--------------------|-----------|
|  | 2016               | 2015      | 2016               | 2015      |
| <b>SUMMARY OF OPERATIONS</b>   |                    |           |                    |           |
| Net interest income (TE)   | \$ 399             | \$ 358    | \$ 218             | \$ 214    |
| Noninterest income   | 196                | 191       | 208                | 188       |
| <br>   |                    |           |                    |           |
| Total revenue (TE) <sup>(a)</sup>                                    | 595                | 549       | 426                | 402       |
| Provision for credit losses  | 42                 | 30        | 43                 | 6         |
| Depreciation and amortization expense                                | 13                 | 15        | 13                 | 10        |
| Other noninterest expense  | 423                | 423       | 224                | 209       |
| <br>   |                    |           |                    |           |
| Income (loss) from continuing operations before<br>income taxes (TE) | 117                | 81        | 146                | 177       |
| Allocated income taxes and TE adjustments                            | 43                 | 30        | 28                 | 49        |
| <br>   |                    |           |                    |           |
| Income (loss) from continuing operations                             | 74                 | 51        | 118                | 128       |
| Income (loss) from discontinued operations, net<br>of taxes          |                    |           |                    |           |
| <br>   |                    |           |                    |           |
| Net income (loss)  | 74                 | 51        | 118                | 128       |
| Less: Net income (loss) attributable to<br>noncontrolling interests  |                    |           |                    | 1         |
| <br>   |                    |           |                    |           |
| Net income (loss) attributable to Key                                | \$ 74              | \$ 51     | \$ 118             | \$ 127    |
| <b>AVERAGE BALANCES <sup>(b)</sup></b>                               |                    |           |                    |           |
| Loans and leases   | \$ 30,789          | \$ 30,662 | \$ 27,722          | \$ 24,722 |
| Total assets <sup>(a)</sup>  | 32,856             | 32,768    | 33,413             | 30,240    |
| Deposits   | 52,803             | 50,415    | 18,074             | 18,569    |
| <b>OTHER FINANCIAL DATA</b>  |                    |           |                    |           |
| Net loan charge-offs <sup>(b)</sup>                                  | \$ 23              | \$ 28     | \$ 18              | \$ (4)    |
| Return on average allocated equity <sup>(b)</sup>                    | 11.09%             | 7.56%     | 23.15%             | 27.68%    |
| Return on average allocated equity                                   | 11.09              | 7.56      | 23.11              | 27.68     |
| Average full-time equivalent employees <sup>(c)</sup>                | 7,376              | 7,642     | 2,126              | 2,057     |

(a) Substantially all revenue generated by our major business segments is derived from clients that reside in the United States. Substantially all long-lived assets, including premises and equipment, capitalized software, and goodwill held by our major business segments, are located in the United States.

(b) From continuing operations.

(c) The number of average full-time equivalent employees was not adjusted for discontinued operations.

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| Other Segments |          | Total Segments |           | Reconciling Items |       | Key       |           |
|----------------|----------|----------------|-----------|-------------------|-------|-----------|-----------|
| 2016           | 2015     | 2016           | 2015      | 2016              | 2015  | 2016      | 2015      |
| \$ (9)         | \$ 3     | \$ 608         | \$ 575    | \$ 4              | \$ 2  | \$ 612    | \$ 577    |
| 30             | 63       | 434            | 442       | (3)               | (5)   | 431       | 437       |
| 21             | 66       | 1,042          | 1,017     | 1                 | (3)   | 1,043     | 1,014     |
| 5              | (1)      | 90             | 35        | (1)               |       | 89        | 35        |
| 1              | 2        | 27             | 27        | 37                | 37    | 64        | 64        |
| 10             | 12       | 657            | 644       | (18)              | (39)  | 639       | 605       |
| 5              | 53       | 268            | 311       | (17)              | (1)   | 251       | 310       |
| (8)            | 8        | 63             | 87        | 1                 | (7)   | 64        | 80        |
| 13             | 45       | 205            | 224       | (18)              | 6     | 187       | 230       |
|                |          |                |           | 1                 | 5     | 1         | 5         |
| 13             | 45       | 205            | 224       | (17)              | 11    | 188       | 235       |
| (1)            | 2        | (1)            | 3         | 1                 | (1)   |           | 2         |
| \$ 14          | \$ 43    | \$ 206         | \$ 221    | \$ (18)           | \$ 12 | \$ 188    | \$ 233    |
| \$ 1,603       | \$ 2,044 | \$ 60,114      | \$ 57,428 | \$ 42             | \$ 84 | \$ 60,156 | \$ 57,512 |
| 27,729         | 25,942   | 93,998         | 88,950    | 479               | 677   | 94,477    | 89,627    |
| 756            | 466      | 71,633         | 69,450    | (35)              | (81)  | 71,598    | 69,369    |
| \$ 5           | \$ 4     | \$ 46          | \$ 28     |                   |       | \$ 46     | \$ 28     |
| 31.11%         | 75.49%   | 16.86%         | 18.56%    | (1.27)%           | 0.49% | 6.87%     | 8.75%     |
| 30.27          | 73.58    | 16.83          | 18.54     | (1.20)            | 0.85  | 6.90      | 8.93      |
| 8              | 16       | 9,510          | 9,715     | 3,893             | 3,876 | 13,403    | 13,591    |

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**Report of Ernst & Young LLP, Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of KeyCorp

We have reviewed the consolidated balance sheets of KeyCorp as of March 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2016 and 2015, and the consolidated statements of changes in equity and cash flows for the three-month periods ended March 31, 2016 and 2015. These financial statements are the responsibility of KeyCorp's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of KeyCorp as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein) and we expressed an unqualified opinion on those consolidated financial statements in our report dated February 24, 2016. In our opinion, the accompanying consolidated balance sheet of KeyCorp as of December 31, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Cleveland, Ohio  
May 5, 2016

Ernst & Young LLP

**Table of Contents****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, 2016, and March 31, 2015. 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 2015 Form 10-K refer to our Form 10-K for the year ended December 31, 2015, which has been filed with the SEC and is available on its website ([www.sec.gov](http://www.sec.gov)) and on our website ([www.key.com/ir](http://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 and liquidity" in the section entitled "Supervision and Regulation" that begins on page 9 of our 2015 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. Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 ( Basis of Presentation and Accounting Policies ).

**Table of Contents****Selected financial data**

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

**Figure 1. Selected Financial Data**

| <i>dollars in millions, except per share amounts</i>   | 2016   |        | 2015   |        |        |
|--|--------|--------|--------|--------|--------|
|  | First  | Fourth | Third  | Second | First  |
| <b>FOR THE PERIOD</b>  |        |        |        |        |        |
| Interest income  | \$ 683 | \$ 673 | \$ 661 | \$ 652 | \$ 636 |
| Interest expense   | 79     | 71     | 70     | 68     | 65     |
| Net interest income  | 604    | 602    | 591    | 584    | 571    |
| Provision for credit losses  | 89     | 45     | 45     | 41     | 35     |
| Noninterest income   | 431    | 485    | 470    | 488    | 437    |
| Noninterest expense  | 703    | 736    | 724    | 711    | 669    |
| Income (loss) from continuing operations before income taxes                                       | 243    | 306    | 292    | 320    | 304    |
| Income (loss) from continuing operations attributable to Key                                       | 187    | 230    | 222    | 235    | 228    |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>                            | 1      | (4)    | (3)    | 3      | 5      |
| Net income (loss) attributable to Key  | 188    | 226    | 219    | 238    | 233    |
| Income (loss) from continuing operations attributable to Key common shareholders                   | 182    | 224    | 216    | 230    | 222    |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>                            | 1      | (4)    | (3)    | 3      | 5      |
| Net income (loss) attributable to Key common shareholders  | 183    | 220    | 213    | 233    | 227    |
| <b>PER COMMON SHARE</b>  |        |        |        |        |        |
| Income (loss) from continuing operations attributable to Key common shareholders                   | \$ .22 | \$ .27 | \$ .26 | \$ .27 | \$ .26 |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>                            |        | (.01)  |        |        | .01    |
| Net income (loss) attributable to Key common shareholders <sup>(b)</sup>                           | .22    | .27    | .26    | .28    | .27    |
| Income (loss) from continuing operations attributable to Key common shareholders assuming dilution | \$ .22 | \$ .27 | \$ .26 | \$ .27 | \$ .26 |
| Income (loss) from discontinued operations, net of taxes assuming dilution <sup>(a)</sup>          |        | (.01)  |        |        | .01    |
| Net income (loss) attributable to Key common shareholders assuming dilution <sup>(b)</sup>         | .22    | .26    | .25    | .27    | .26    |
| Cash dividends paid  | .075   | .075   | .075   | .075   | .065   |
| Book value at period end   | 12.79  | 12.51  | 12.47  | 12.21  | 12.12  |
| Tangible book value at period end  | 11.52  | 11.22  | 11.17  | 10.92  | 10.84  |

|  |                  |           |           |           |           |
|--|------------------|-----------|-----------|-----------|-----------|
| <b>Market price:</b>   |                  |           |           |           |           |
| High   | <b>13.37</b>     | 14.01     | 15.46     | 15.70     | 14.74     |
| Low  | <b>9.88</b>      | 12.37     | 12.65     | 13.90     | 12.04     |
| Close  | <b>11.04</b>     | 13.19     | 13.01     | 15.02     | 14.16     |
| Weighted-average common shares outstanding (000) <sup>(c)</sup>                                  | <b>827,381</b>   | 828,206   | 831,430   | 839,454   | 848,580   |
| Weighted-average common shares and potential common shares outstanding (000) <sup>(c), (d)</sup> | <b>835,060</b>   | 835,939   | 838,880   | 846,312   | 857,122   |
| <b>AT PERIOD END</b>   |                  |           |           |           |           |
| Loans  | <b>\$ 60,438</b> | \$ 59,876 | \$ 60,085 | \$ 58,264 | \$ 57,953 |
| Earning assets   | <b>87,273</b>    | 83,780    | 83,779    | 82,964    | 82,624    |
| Total assets   | <b>98,402</b>    | 95,131    | 95,420    | 94,604    | 94,204    |
| Deposits   | <b>73,382</b>    | 71,046    | 71,073    | 70,669    | 71,622    |
| Long-term debt   | <b>10,760</b>    | 10,184    | 10,308    | 10,265    | 8,711     |
| Key common shareholders equity   | <b>10,776</b>    | 10,456    | 10,415    | 10,300    | 10,313    |
| Key shareholders equity  | <b>11,066</b>    | 10,746    | 10,705    | 10,590    | 10,603    |
| <b>PERFORMANCE RATIOS FROM CONTINUING OPERATIONS</b>   |                  |           |           |           |           |
| Return on average total assets   | <b>.80%</b>      | .97%      | .95%      | 1.03%     | 1.03%     |
| Return on average common equity  | <b>6.86</b>      | 8.51      | 8.30      | 8.96      | 8.76      |
| Return on average tangible common equity <sup>(e)</sup>  | <b>7.64</b>      | 9.50      | 9.27      | 10.01     | 9.80      |
| Net interest margin (TE)   | <b>2.89</b>      | 2.87      | 2.87      | 2.88      | 2.91      |
| Cash efficiency ratio <sup>(e)</sup>   | <b>66.6</b>      | 66.4      | 66.9      | 65.1      | 65.1      |
| <b>PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS</b>   |                  |           |           |           |           |
| Return on average total assets   | <b>.79%</b>      | .93%      | .92%      | 1.02%     | 1.03%     |
| Return on average common equity  | <b>6.90</b>      | 8.36      | 8.19      | 9.07      | 8.96      |
| Return on average tangible common equity <sup>(e)</sup>  | <b>7.68</b>      | 9.33      | 9.14      | 10.14     | 10.02     |
| Net interest margin (TE)   | <b>2.83</b>      | 2.84      | 2.84      | 2.85      | 2.88      |
| Loan-to-deposit <sup>(f)</sup>   | <b>85.7</b>      | 87.8      | 89.3      | 87.3      | 86.9      |
| <b>CAPITAL RATIOS AT PERIOD END</b>  |                  |           |           |           |           |
| Key shareholders equity to assets  | <b>11.25%</b>    | 11.30%    | 11.22%    | 11.19%    | 11.26%    |
| Key common shareholders equity to assets   | <b>10.95</b>     | 10.99     | 10.91     | 10.89     | 10.95     |
| Tangible common equity to tangible assets <sup>(e)</sup>   | <b>9.97</b>      | 9.98      | 9.90      | 9.86      | 9.92      |
| Common Equity Tier 1 <sup>(e)</sup>  | <b>11.07</b>     | 10.94     | 10.47     | 10.71     | 10.64     |
| Tier 1 risk-based capital  | <b>11.38</b>     | 11.35     | 10.87     | 11.11     | 11.04     |
| Total risk-based capital   | <b>13.12</b>     | 12.97     | 12.47     | 12.66     | 12.79     |
| Leverage   | <b>10.73</b>     | 10.72     | 10.68     | 10.74     | 10.91     |
| <b>TRUST AND BROKERAGE ASSETS</b>  |                  |           |           |           |           |
| Assets under management  | <b>\$ 34,107</b> | \$ 33,983 | \$ 35,158 | \$ 38,399 | \$ 39,281 |
| Nonmanaged and brokerage assets  | <b>49,474</b>    | 47,681    | 46,796    | 48,789    | 49,508    |
| <b>OTHER DATA</b>  |                  |           |           |           |           |
| Average full-time-equivalent employees   | <b>13,403</b>    | 13,359    | 13,555    | 13,455    | 13,591    |
| Branches   | <b>961</b>       | 966       | 972       | 989       | 992       |

- (a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 11 ( Acquisitions and Discontinued Operations ).
- (b) EPS may not foot due to rounding.
- (c) For the three months ended March 31, 2016, weighted-average common shares outstanding, effect of common share options and other stock awards, and weighted-average common shares and potential common shares outstanding have been revised from our financial results reported on Form 8-K on April 21, 2016.
- (d) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.
- (e) See Figure 7 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, Common Equity Tier 1 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.
- (f) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits (excluding deposits in foreign office).



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**Forward-looking statements**

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

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

deterioration of commercial real estate market fundamentals;

defaults by our loan counterparties or clients;

adverse changes in credit quality trends;

declining asset prices;

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

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

changes in accounting policies, standards, and interpretations;

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

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

negative outcomes from claims or litigation;

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

increasing capital and liquidity standards under applicable regulatory rules;

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

our ability to receive dividends from our subsidiary, KeyBank;

downgrades in our credit ratings or those of KeyBank;

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

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

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

the soundness of other financial institutions;

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

our ability to timely and effectively implement our strategic initiatives;

increased competitive pressure due to industry consolidation;

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

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

our ability to develop and effectively use the quantitative models we rely upon in our business planning. Any forward-looking statements made by us or on our behalf speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in our SEC filings, including this report on Form 10-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](http://www.sec.gov) and on our website at [www.key.com/ir](http://www.key.com/ir).

**Economic overview**

The economy waned at the beginning of 2016, with the Federal Reserve Bank of Atlanta estimating real GDP of .3% for the first quarter of 2016. International trade continued to weigh on growth as the strong dollar and slowing emerging market growth held back demand for U.S. goods and services. Meanwhile, strong job growth has yet to translate into substantial wage growth or greater consumer confidence, and consumer spending remained weak. Additionally, housing market data has been disappointing, with slow growth in residential construction and only modest year-over-year improvement in sales of new and existing homes. Geopolitical tensions, slowing global growth, prospective Federal Reserve actions, and mixed economic data kept markets in check throughout the first quarter of 2016.

In the first quarter of 2016, weak income growth remained an important constraint on consumption, although fundamentals appear to be improving. Real spending was stagnant in January and February 2016, continuing the trend from December 2015, held back by declines in both durable and nondurable goods. Vehicle sales have weakened, steadily dropping from a seasonally adjusted annual rate of 18.2 million sales in November 2015 to 16.6 million units in March 2016. Consumer confidence was unchanged throughout the quarter, with the Conference Board measure ending the first quarter of 2016 at 96.2, down .1 points from the end of 2015. Inflation remained well below the Federal Reserve target, with the core personal consumption expenditure index up just 1.0% year-over-year as of February 2016.

In the labor market, average monthly job gains declined to 209,000 during the first quarter of 2016, compared to the robust average of 282,000 in the fourth quarter of 2015. Gains, however, were broad, with improvement across industry sectors. The unemployment rate was flat, finishing the first quarter of 2016 at 5.0%, driven in part by an

increasing labor force and higher participation rate from the end of 2015.

The housing market stalled in the first quarter of 2016, with most metrics remaining up year-over-year but below year-end 2015 levels. Existing home sales decreased modestly from the end of 2015, ending the first quarter of 2016 at 5.3 million units, slightly above year-ago levels. New home sales ended the first quarter of 2016 5% lower than the end of 2015, but with a 5% year-over-year increase. Housing starts picked up from the same period one year ago, totaling a seasonally adjusted annual rate of 1.09 million in March 2016, up 14% year-over-year but down 6% from the end of 2015. Permits declined 10% from the prior quarter. Home price appreciation remained healthy, up 6.8% year-over-year in February 2016.

The Federal Reserve remained accommodative in the first quarter of 2016, continuing to reinvest principal payments to ease financial conditions. Forward guidance is somewhat unclear as to when the Federal Open Market Committee will again raise the federal funds target rate, as global economic conditions and inflation measures remain concerns. Weaker economic data, geopolitical tensions, slower emerging market growth, and cautious forward guidance have held rates in check. The yield on the 10-year U.S. Treasury dropped 49 basis points in the first quarter of 2016 to 1.78%.

**Table of Contents****Long-term financial goals**

Our long-term financial goals, excluding the impact of merger-related expense, are as follows:

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

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

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

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

Maintain disciplined capital management and target a return on average assets in the range of 1.00% to 1.25%. Figure 2 shows the evaluation of our long-term financial goals for the three months ended March 31, 2016.

**Figure 2. Evaluation of Our Long-Term Financial Goals**

| <b>KEY Business Model</b>                    | <b>Key Metrics <sup>(a)</sup></b>                                     | <b>1Q16</b> | <b>Targets</b> |
|--|---|-------------|----------------|
| <b>Balance sheet efficiency</b>              | Loan-to-deposit ratio <sup>(b)</sup>                                  | 86 %        | 90-100%        |
|  | Net loan charge-offs to average loans                                 | .31%        |                |
| <b>Moderate risk profile</b>                 | Provision for credit losses to average loans                          | .60%        | .40-.60%       |
|  | Net interest margin   | 2.89%       | 3.00-3.25%     |
| <b>High quality, diverse revenue streams</b> | Noninterest income to total revenue                                   | 41%         | > 40%          |
|  | Cash efficiency ratio <sup>(c)</sup>                                  | 66.6 %      | < 60%          |
| <b>Positive operating leverage</b>           | Cash efficiency ratio excluding merger-related expense <sup>(c)</sup> | 64.3 %      |                |

|                          |                                       |       |            |
|--------------------------|---------------------------------------|-------|------------|
|                          | Return on average assets              | .80%  |            |
| <b>Financial Returns</b> |                                       |       |            |
|                          | Return on average assets excluding    | .86 % | 1.00-1.25% |
|                          | merger-related expense <sup>(c)</sup> |       |            |

- (a) Calculated from continuing operations, unless otherwise noted.  
(b) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits (excluding deposits in foreign office).  
(c) Non-GAAP measure: see Figure 7 for reconciliation.

### Strategic developments

Our actions and results during the first three months of 2016 supported our corporate strategy described in the Introduction section under the Corporate strategy heading on page 38 of our 2015 Form 10-K.

We continue to focus on growing our businesses and remain committed to improving productivity and efficiency. During the first three months of 2016, we generated positive operating leverage excluding merger-related expense from the prior year, with revenue up 2.9% from the first quarter of 2015. Net interest income benefited from higher earning asset balances and an increase in earning asset yields, largely the result of our loan portfolio repricing to the higher short-term interest rates that resulted from the Federal Reserve's decision to raise the target range for the federal funds rate in mid-December of 2015. Although noninterest income declined slightly from the prior year, we saw a benefit from increases in several of our core fee-based businesses where we continue to make investments: investment banking and debt placement fees, service charges on deposit accounts, corporate services income, and cards and payments income. Excluding merger-related expense of \$24 million, noninterest expense increased \$10 million from the prior year primarily due to slight increases across various nonpersonnel areas.

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Although asset quality measures were impacted in the first quarter of 2016 by credit migration, primarily in our oil and gas portfolio, our net loan charge-offs were .31% of average loans and the provision for credit losses was .60% of average loans, both within our targeted range.

Capital management remains a priority for 2016. As previously reported, our existing share repurchase program under the 2015 capital plan is suspended due to the pending acquisition of First Niagara. However, our 2016 CCAR capital plan submission included share repurchases.

Consistent with our 2015 capital plan, we made a dividend payment of \$.075 per common share for the first quarter of 2016. An additional planned increase in our quarterly common share dividend to \$.085 per share will be considered by the Board in May of 2016 for the fifth quarter of the 2015 capital plan. Our 2016 CCAR capital plan submission included an additional increase in our quarterly common share dividend.

We continue to make progress on our acquisition of First Niagara. The shareholders of both Key and First Niagara approved the merger during the first quarter of 2016. On April 28, 2016, KeyCorp and First Niagara entered into an agreement with Northwest Bank, a wholly-owned subsidiary of Northwest Bancshares, Inc., to sell 18 branches in the Buffalo, New York market. The branches are being divested in connection with the pending merger between First Niagara and KeyCorp and pursuant to an agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System following a customary antitrust review in connection with the proposed merger. The merger is currently expected to be completed during the third quarter of 2016 and is subject to customary closing conditions including the approval of regulators.

**Demographics**

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

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

Figure 3 shows the geographic diversity of Key Community Bank's average deposits, commercial loans, and home equity loans.

**Figure 3. Key Community Bank Geographic Diversity**

| Three months ended<br>March 31, 2016           | Geographic Region |                    |          |                        |           |                     |                     |          |                          | Total     |
|--|-------------------|--------------------|----------|------------------------|-----------|---------------------|---------------------|----------|--------------------------|-----------|
|  | Pacific           | Rocky<br>Mountains | Indiana  | West Ohio/<br>Michigan | East Ohio | Western<br>New York | Eastern<br>New York | England  | NonRegion <sup>(a)</sup> |           |
| <i>dollars in millions</i><br>Average deposits | \$ 12,603         | \$ 5,213           | \$ 2,389 | \$ 4,681               | \$ 9,902  | \$ 5,033            | \$ 7,952            | \$ 2,982 | \$ 2,048                 | \$ 52,803 |

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|                           |          |          |        |          |          |        |          |        |          |           |
|---------------------------|----------|----------|--------|----------|----------|--------|----------|--------|----------|-----------|
| Percent of total          | 23.9%    | 9.9%     | 4.5%   | 8.9%     | 18.7%    | 9.5%   | 15.1%    | 5.6%   | 3.9%     | 100.0%    |
| Average commercial loans  | \$ 3,492 | \$ 1,813 | \$ 926 | \$ 1,181 | \$ 2,316 | \$ 620 | \$ 1,863 | \$ 841 | \$ 3,146 | \$ 16,198 |
| Percent of total          | 21.6%    | 11.2%    | 5.7%   | 7.3%     | 14.3%    | 3.8%   | 11.5%    | 5.2%   | 19.4%    | 100.0%    |
| Average home equity loans | \$ 3,175 | \$ 1,519 | \$ 492 | \$ 814   | \$ 1,236 | \$ 826 | \$ 1,251 | \$ 650 | \$ 74    | \$ 10,037 |
| Percent of total          | 31.6%    | 15.1%    | 4.9%   | 8.1%     | 12.3%    | 8.2%   | 12.5%    | 6.5%   | .8%      | 100.0%    |

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

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



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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 ).

**Table of Contents****Supervision and regulation****Regulatory reform developments**

On July 21, 2010, the Dodd-Frank Act became law. It was intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the U.S., reduce the risks of bank failures, better equip the nation's regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of bank and nonbank SIFIs, such as KeyCorp and KeyBank. Further discussion concerning the Dodd-Frank Act, related regulatory developments, and the risks that they present to Key is available under the heading "Supervision and Regulation" in Item 1. Business and under the heading "II. Compliance Risk" in Item 1A. Risk Factors of our 2015 Form 10-K. Many proposed rules referenced in our prior reports remain pending. The following discussion provides a summary of recent regulatory developments relating to the Dodd-Frank Act or regulatory developments that relate to our results this quarter.

**Regulatory capital rules**

In October 2013, federal banking regulators published the final Basel III capital framework for U.S. banking organizations (the "Regulatory Capital Rules"). The Regulatory Capital Rules generally implement in the U.S. the Basel III capital framework published by the Basel Committee in December 2010 and revised in June 2011 and January 2014 (the "Basel III capital framework"). 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 2015 Form 10-K under the heading "Supervision and Regulation - Basel III capital and liquidity frameworks."

While the Regulatory Capital Rules became effective on January 1, 2014, the mandatory compliance date for Key as a "standardized approach" banking organization was January 1, 2015, subject to transitional provisions extending to January 1, 2019.

***New minimum capital and leverage ratio requirements***

Under the Regulatory Capital Rules, "standardized approach" banking organizations, like KeyCorp, are required to meet the minimum capital and leverage ratios set forth in Figure 4 below. At March 31, 2016, Key had an estimated Common Equity Tier 1 Capital Ratio of 11.02% under the fully phased-in Regulatory Capital Rules. Also at March 31, 2016, 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.

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

| Ratios (including Capital conservation buffer)     | Key                         |                            |                    |                            |
|--|-----------------------------|----------------------------|--------------------|----------------------------|
|  | March 31, 2016<br>Estimated | Minimum<br>January 1, 2016 | Phase-in<br>Period | Minimum<br>January 1, 2019 |
| Common Equity Tier 1                               | 11.02%                      | 4.5%                       | None               | 4.5%                       |
| Capital conservation buffer <sup>(a)</sup>         |                             |                            | 1/1/16-1/1/19      | 2.5                        |
| Common Equity Tier 1 + Capital conservation buffer |                             | 4.5                        | 1/1/16-1/1/19      | 7.0                        |
| Tier 1 Capital                                     | 11.01                       | 6.0                        | None               | 6.0                        |
| Tier 1 Capital + Capital conservation buffer       |                             | 6.0                        | 1/1/16-1/1/19      | 8.5                        |

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|   |       |     |               |      |
|---|-------|-----|---------------|------|
| Total Capital                               | 12.76 | 8.0 | None          | 8.0  |
| Total Capital + Capital conservation buffer |       | 8.0 | 1/1/16-1/1/19 | 10.5 |
| Leverage <sup>(b)</sup>                     | 10.44 | 4.0 | None          | 4.0  |

- (a) See Figure 7 entitled GAAP to Non-GAAP Reconciliations, which presents the computation for estimated Common Equity Tier 1. The table reconciles the GAAP performance measure to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.
- (b) Capital conservation buffer must consist of Common Equity Tier 1 capital. As a standardized approach banking organization, KeyCorp is not subject to the countercyclical capital buffer of up to 2.5% imposed upon an advanced approaches banking organization under the Regulatory Capital Rules.
- (c) As a standardized approach banking organization, KeyCorp is not subject to the 3% supplemental leverage ratio requirement, which becomes effective January 1, 2018.

**Table of Contents***Revised prompt corrective action capital category ratios*

Under the Regulatory Capital Rules, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions such as KeyBank were revised effective January 1, 2015. Figure 5 identifies the capital category threshold ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules.

**Figure 5. Well Capitalized and Adequately Capitalized Capital Category Ratios under Revised Prompt Corrective Action Rules**

| Prompt Corrective Action Ratio  | Capital Category                |                        |
|---------------------------------|---------------------------------|------------------------|
|                                 | Well Capitalized <sup>(a)</sup> | 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 <sup>(b)</sup>  | 5.0                             | 4.0                    |

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

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

As of March 31, 2016, KeyBank meets all well capitalized capital adequacy requirements under the Regulatory Capital Rules.

**Liquidity coverage ratio**

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

Because KeyCorp is a Modified LCR BHC under the Liquidity Coverage Rules, Key is required to maintain its ratio of high-quality liquid assets to its total net cash outflow amount, determined by prescribed assumptions in a standardized hypothetical stress scenario over a 30-calendar day period. Implementation for Modified LCR banking organizations, like Key, began on January 1, 2016, with a minimum requirement of 90% coverage, reaching 100% coverage by January 1, 2017. For the first quarter of 2016, our Modified LCR was above 100%. In the future, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings to enhance or optimize our liquidity position.

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.

Net stable funding ratio

As previously disclosed in the Supervision and Regulation section of Item 1. Business of our 2015 Form 10-K under the heading Basel III capital and liquidity frameworks, the Basel Committee finalized the Basel III net stable funding ratio ( NSFR ) in October 2014. The Basel Committee published final Basel III NSFR disclosure standards in June 2015. In April and May 2016, the federal banking regulators issued an NPR proposing to implement the final Basel III NSFR and the final Basel III NSFR disclosure standards. The proposal would create a minimum NSFR for certain internationally active banking organizations (excluding KeyCorp) and a modified version of the NSFR for BHCs and other depository institution holding companies with over \$50 billion in consolidated assets that are not internationally active (including KeyCorp). The proposal would also require quarterly quantitative and qualitative public disclosures regarding the NSFR. The proposed NSFR requirement would apply beginning on January 1, 2018. The comment period for the NPR expires on August 5, 2016.

Common equity surcharge

In July 2015, the Federal Reserve adopted a final rule to implement the common equity surcharge on U.S. global systemically important banks ( G-SIBs ). The final rule was effective December 1, 2015, although the surcharge, which will be added to the capital conservation buffer under the Regulatory Capital Rules, will be phased in during the January 1, 2016, through January 1, 2019, period. Notably, this final rule applies to advanced approaches banking organizations, not standardized approach banking organizations like Key.

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**Deposit insurance and assessments**

In March 2015, the FDIC approved a final rule to impose a surcharge, as required by the Dodd-Frank Act, on the quarterly deposit insurance assessments of insured depository institutions having total consolidated assets of at least \$10 billion (like KeyBank). The surcharge is 4.5 cents per \$100 of the institution's assessment base (after making certain adjustments). The final rule will become effective on July 1, 2016. If the DIF reserve ratio reaches 1.15% before that date, surcharges will begin July 1, 2016. If the reserve ratio has not reached 1.15% by that date, surcharges will begin the first quarter after the reserve ratio reaches 1.15%. The DIF reserve ratio was 1.11% at the end of 2015. 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 February 2016, the FDIC issued an NPR proposing to impose 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 proposal would require such insured depository institutions (i) to 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) to develop the capability to calculate the insured and uninsured amounts for each deposit owner within 24 hours of failure. The FDIC would conduct periodic testing of covered institutions compliance with these requirements and such institutions would be required to file a deposit insurance coverage summary report with the FDIC annually. Compliance would be required two years after the effective date of a final rule. The comment period for the NPR expires on May 26, 2016.

**Single counterparty credit limits**

In March 2016, the Federal Reserve issued an NPR proposing to establish single counterparty credit limits for BHCs with total consolidated assets of \$50 billion or more. This proposal would implement a provision in the Dodd-Frank Act and replaces proposals on this subject issued by the Federal Reserve in 2011 and 2012. Under the proposal, a covered BHC (including KeyCorp) would not be allowed to have an aggregate net credit exposure to any unaffiliated counterparty that exceeds 25% of the consolidated capital stock and surplus of the covered BHC. G-SIBs and certain other large BHCs (excluding KeyCorp) would be subject to stricter limits under the proposal. A covered BHC such as KeyCorp would be required to comply with the proposed limits and quarterly reporting to show such compliance starting two years after the effective date of a final rule. The comment period for the NPR expires on June 3, 2016.

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**Table of Contents****Highlights of Our Performance****Financial performance**

For the first quarter of 2016, we announced net income from continuing operations attributable to Key common shareholders of \$182 million, or \$.22 per common share. Our first quarter of 2016 results compare to net income from continuing operations attributable to Key common shareholders of \$222 million, or \$.26 per common share, for the first quarter of 2015.

Our taxable-equivalent net interest income was \$612 million for the first quarter of 2016, and the net interest margin was 2.89%. These results compare to taxable-equivalent net interest income of \$577 million and a net interest margin of 2.91% for the first quarter of 2015. The \$35 million increase in net interest income reflects higher earning asset balances and an increase in earning asset yields, largely the result of our loan portfolio re-pricing to the higher short-term interest rates that resulted from the Federal Reserve's decision to raise the target range for the federal funds rate in mid-December of 2015. The net interest margin remained relatively stable, benefitting from higher earning asset yields, which were offset by higher levels of liquidity. For the full year of 2016, we expect low-to-mid-single-digit growth in net interest income compared to the prior year without the benefit of higher rates or mid-single-digit growth with the benefit of higher interest rates.

Our noninterest income was \$431 million for the first quarter of 2016, compared to \$437 million for the year-ago quarter. The decrease from the prior year was largely attributable to lower net gains from principal investing of \$29 million, reflecting market weakness. This decline was offset by an increase in other income of \$12 million primarily related to gains from certain real estate investments, along with continued growth in some of our core fee-based businesses, including corporate services and cards and payments. For the full year of 2016, we expect low-to-mid-single-digit growth in our noninterest income compared to the prior year.

Our noninterest expense was \$703 million for the first quarter of 2016. Noninterest expense included \$24 million of merger-related expense, primarily made up of \$16 million in personnel expense related to technology development for systems conversions and fully dedicated personnel for acquisition and integration efforts. The remaining \$8 million of merger-related expense was nonpersonnel expense, largely recognized in business services and professional fees. Excluding merger-related expense, noninterest expense was \$10 million higher than the first quarter of 2015, primarily attributable to slight increases across various nonpersonnel areas. Personnel expenses, adjusting for merger-related expense, declined \$1 million from the first quarter of 2015 due to lower employee benefits and severance expense offsetting higher salaries and performance-based compensation. For the full year of 2016, we expect noninterest expense excluding merger-related expense to be relatively stable with 2015.

Average loans were \$60.2 billion for the first quarter of 2016, an increase of \$2.6 billion compared to the first quarter of 2015. The loan growth occurred in the commercial, financial and agricultural portfolio, which increased \$3.3 billion and was spread across our commercial lines of business. Consumer loans declined by \$432 million mostly due to paydowns on our prime-based home equity lines of credit and continued run-off in our consumer exit portfolios. For the full year of 2016, we anticipate average loan growth in the mid-single-digit range.

Average deposits, excluding deposits in foreign office, totaled \$71.6 billion for the first quarter of 2016, an increase of \$2.8 billion compared to the year-ago quarter. Interest-bearing deposits increased \$3.4 billion driven by a \$2.8 billion increase in NOW and money market deposit accounts and a \$727 million increase in certificates of deposit and other time deposits. The increase in NOW and money market deposit accounts reflects growth in the commercial mortgage servicing business and inflows from commercial and consumer clients. These increases were partially offset by a \$689 million decline in noninterest-bearing deposits.

Asset quality measures in the first quarter of 2016 were impacted by credit migration, primarily in the oil and gas portfolio. Our provision for credit losses was \$89 million for the first quarter of 2016, compared to \$35 million for the year-ago quarter. Our ALLL was \$826 million, or 1.37% of total period-end loans at March 31, 2016, compared to 1.37% at March 31, 2015. For the remainder of 2016, we expect our ALLL as a percentage of period-end loans to remain relatively stable with the first quarter of 2016.

Net loan charge-offs for the first quarter of 2016 totaled \$46 million, or .31% of average total loans, compared to .20% for the same period last year. We expect net loan charge-offs to average total loans to continue to be below our targeted range of .40% to .60% for the remainder of 2016.

At March 31, 2016, our nonperforming loans totaled \$676 million and represented 1.12% of period-end portfolio loans, compared to \$437 million, or .75% of period-end portfolio loans, at March 31, 2015. Nonperforming assets at March 31, 2016, totaled \$692 million and represented 1.14% of period-end portfolio loans and OREO and other nonperforming assets, compared to \$457 million, or .79% of period-end portfolio loans, at March 31, 2015. Approximately 90% of the change in our nonperforming assets and nonperforming loans from one year ago was related to our oil and gas portfolio.



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Our capital ratios remain strong. Our tangible common equity and Tier 1 risk-based capital ratios at March 31, 2016, are 9.97% and 11.38%, respectively, compared to 9.92% and 11.04%, respectively, at March 31, 2015. In addition, our Common Equity Tier 1 ratio is 11.07% at March 31, 2016, compared to 10.64% at March 31, 2015. We continue to return capital to our shareholders through our quarterly common share dividend. In the first quarter of 2016, we paid a cash dividend of \$.075 per common share under our 2015 capital plan authorization.

Figure 6 shows our continuing and discontinued operating results for the current, past, and year-ago quarters. Our financial performance for each of the past five quarters is summarized in Figure 1.

**Figure 6. Results of Operations**

| <i>in millions, except per share amounts</i>                                     | <b>Three months ended</b> |                 |                |
|--|---------------------------|-----------------|----------------|
|  | <b>3-31-16</b>            | <b>12-31-15</b> | <b>3-31-15</b> |
| <b>Summary of operations</b>   |                           |                 |                |
| Income (loss) from continuing operations attributable to Key                     | <b>\$ 187</b>             | \$ 230          | \$ 228         |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>          | <b>1</b>                  | (4)             | 5              |
| Net income (loss) attributable to Key  | <b>\$ 188</b>             | \$ 226          | \$ 233         |
| Income (loss) from continuing operations attributable to Key                     | <b>\$ 187</b>             | \$ 230          | \$ 228         |
| Less: Dividends on Series A Preferred Stock                                      | <b>5</b>                  | 6               | 6              |
| Income (loss) from continuing operations attributable to Key common shareholders | <b>182</b>                | 224             | 222            |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>          | <b>1</b>                  | (4)             | 5              |
| Net income (loss) attributable to Key common shareholders                        | <b>\$ 183</b>             | \$ 220          | \$ 227         |
| <b>Per common share assuming dilution</b>  |                           |                 |                |
| Income (loss) from continuing operations attributable to Key common shareholders | <b>\$ .22</b>             | \$ .27          | \$ .26         |
| Income (loss) from discontinued operations, net of taxes <sup>(a)</sup>          |                           | (.01)           | .01            |
| Net income (loss) attributable to Key common shareholders <sup>(b)</sup>         | <b>\$ .22</b>             | \$ .26          | \$ .26         |

(a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 11 ( Acquisitions and Discontinued Operations ).

(b) EPS may not foot due to rounding.

Figure 7 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity, Common Equity Tier 1, pre-provision net revenue, certain financial measures excluding merger-related expense, and cash efficiency ratio.

The tangible common equity ratio and the return on tangible common equity ratio have been a focus for some investors, and management believes these ratios may assist investors in analyzing Key's capital position without regard to the effects of intangible assets and preferred stock. Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve focuses its assessment of capital adequacy on a component of Tier 1 capital known as Common Equity Tier 1. Because the Federal Reserve has long indicated that voting common shareholders' equity (essentially Tier 1 risk-based capital less preferred stock and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Common Equity Tier 1 is consistent with existing capital adequacy categories. The Regulatory Capital Rules, described in more detail under the section "Supervision and regulation" in Item 2 of this report, also make Common Equity Tier 1 a priority. The Regulatory Capital Rules change the regulatory capital standards that apply to BHCs by, among other changes, phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. Starting in 2016, our trust preferred securities are only included in Tier 2 capital. Since analysts and banking regulators may assess our capital adequacy using tangible common equity and Common Equity Tier 1, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 7 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Figure 7 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.

On October 30, 2015, we announced that we had entered into a definitive agreement and plan of merger to acquire First Niagara. As a result of this pending transaction, we've recognized merger-related expense. Figure 7 shows the computation of noninterest expense excluding merger-related expense and return on average assets from continuing operations excluding merger-related expense. We believe that eliminating the effects of the merger-related expense makes it easier to analyze our results by presenting them on a more comparable basis.

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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 disclosed the cash efficiency ratio excluding merger-related expense. 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, or as a substitute for analyses of results as reported under GAAP.

**Table of Contents****Figure 7. GAAP to Non-GAAP Reconciliations**

| <i>dollars in millions</i>  | Three months ended |                  |                  |                  |                  |
|---|--------------------|------------------|------------------|------------------|------------------|
|   | 3-31-16            | 12-31-15         | 9-30-15          | 6-30-15          | 3-31-15          |
| <b>Tangible common equity to tangible assets at period end</b>                                |                    |                  |                  |                  |                  |
| Key shareholders equity (GAAP)  | \$ 11,066          | \$ 10,746        | \$ 10,705        | \$ 10,590        | \$ 10,603        |
| Less: Intangible assets <sup>(a)</sup>  | 1,077              | 1,080            | 1,084            | 1,085            | 1,088            |
| Series A Preferred Stock <sup>(b)</sup>   | 281                | 281              | 281              | 281              | 281              |
| <b>Tangible common equity (non-GAAP)</b>  | <b>\$ 9,708</b>    | <b>\$ 9,385</b>  | <b>\$ 9,340</b>  | <b>\$ 9,224</b>  | <b>\$ 9,234</b>  |
| Total assets (GAAP)   | \$ 98,402          | \$ 95,131        | \$ 95,420        | \$ 94,604        | \$ 94,204        |
| Less: Intangible assets <sup>(a)</sup>  | 1,077              | 1,080            | 1,084            | 1,085            | 1,088            |
| <b>Tangible assets (non-GAAP)</b>   | <b>\$ 97,325</b>   | <b>\$ 94,051</b> | <b>\$ 94,336</b> | <b>\$ 93,519</b> | <b>\$ 93,116</b> |
| <b>Tangible common equity to tangible assets ratio (non-GAAP)</b>                             | <b>9.97%</b>       | <b>9.98%</b>     | <b>9.90%</b>     | <b>9.86%</b>     | <b>9.92%</b>     |
| <b>Common Equity Tier 1 at period end</b>   |                    |                  |                  |                  |                  |
| Key shareholders equity (GAAP)  | \$ 11,066          | \$ 10,746        | \$ 10,705        | 10,590           | 10,603           |
| Less: Series A Preferred Stock <sup>(b)</sup>   | 281                | 281              | 281              | 281              | 281              |
| <b>Common Equity Tier 1 capital before adjustments and deductions</b>                         | <b>10,785</b>      | <b>10,465</b>    | <b>10,424</b>    | <b>10,309</b>    | <b>10,322</b>    |
| Less: Goodwill, net of deferred taxes   | 1,033              | 1,034            | 1,036            | 1,034            | 1,036            |
| Intangible assets, net of deferred taxes  | 35                 | 26               | 29               | 33               | 36               |
| Deferred tax assets   | 1                  | 1                | 1                | 1                | 1                |
| Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes         | 70                 | (58)             | 54               |                  | 52               |
| Accumulated gains (losses) on cash flow hedges, net of deferred taxes                         | 46                 | (20)             | 21               | (20)             | (8)              |
| Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes | (365)              | (365)            | (385)            | (361)            | (364)            |
| <b>Total Common Equity Tier 1 capital</b>   | <b>\$ 9,965</b>    | <b>\$ 9,847</b>  | <b>\$ 9,668</b>  | <b>9,622</b>     | <b>9,569</b>     |
| <b>Net risk-weighted assets (regulatory)</b>  | <b>\$ 90,014</b>   | <b>\$ 89,980</b> | <b>\$ 92,307</b> | <b>89,851</b>    | <b>89,967</b>    |
| <b>Common Equity Tier 1 ratio (non-GAAP)</b>  | <b>11.07%</b>      | <b>10.94%</b>    | <b>10.47%</b>    | <b>10.71%</b>    | <b>10.64%</b>    |
| <b>Average tangible common equity</b>   |                    |                  |                  |                  |                  |
| Average Key shareholders equity (GAAP)  | \$ 10,953          | \$ 10,731        | \$ 10,614        | \$ 10,590        | \$ 10,570        |
| Less: Intangible assets (average) <sup>(c)</sup>  | 1,079              | 1,082            | 1,083            | 1,086            | 1,089            |

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|   |                 |          |          |          |          |
|---|-----------------|----------|----------|----------|----------|
| Series A Preferred Stock (average)  | <b>290</b>      | 290      | 290      | 290      | 290      |
| Average tangible common equity (non-GAAP)   | <b>\$ 9,584</b> | \$ 9,359 | \$ 9,241 | \$ 9,214 | \$ 9,191 |
| <b>Return on average tangible common equity from continuing operations</b>                  |                 |          |          |          |          |
| Net income (loss) from continuing operations attributable to Key common shareholders (GAAP) | <b>\$ 182</b>   | \$ 224   | \$ 216   | \$ 230   | \$ 222   |
| Average tangible common equity (non-GAAP)   | <b>9,584</b>    | 9,359    | 9,241    | 9,214    | 9,191    |
| Return on average tangible common equity from continuing operations (non-GAAP)              | <b>7.64%</b>    | 9.50%    | 9.27%    | 10.01%   | 9.80%    |
| <b>Return on average tangible common equity consolidated</b>                                |                 |          |          |          |          |
| Net income (loss) attributable to Key common shareholders (GAAP)                            | <b>\$ 183</b>   | \$ 220   | \$ 213   | \$ 233   | \$ 227   |
| Average tangible common equity (non-GAAP)   | <b>9,584</b>    | 9,359    | 9,241    | 9,214    | 9,191    |
| Return on average tangible common equity consolidated (non-GAAP)                            | <b>7.68%</b>    | 9.33%    | 9.14%    | 10.14%   | 10.02%   |
| <b>Pre-provision net revenue</b>  |                 |          |          |          |          |
| Net interest income (GAAP)  | <b>\$ 604</b>   | \$ 602   | \$ 591   | \$ 584   | \$ 571   |
| Plus: Taxable-equivalent adjustment   | <b>8</b>        | 8        | 7        | 7        | 6        |
| Noninterest income  | <b>431</b>      | 485      | 470      | 488      | 437      |
| Less: Noninterest expense   | <b>703</b>      | 736      | 724      | 711      | 669      |
| Pre-provision net revenue from continuing operations (non-GAAP)                             | <b>\$ 340</b>   | \$ 359   | \$ 344   | \$ 368   | \$ 345   |
| <b>Noninterest expense excluding merger-related expense</b>                                 |                 |          |          |          |          |
| Noninterest expense (GAAP)  | <b>\$ 703</b>   | \$ 736   | \$ 724   | \$ 711   | \$ 669   |
| Less: Merger-related expense  | <b>24</b>       | 6        |          |          |          |
| Noninterest expense excluding merger-related expense (non-GAAP)                             | <b>\$ 679</b>   | \$ 730   | \$ 724   | 711      | \$ 669   |
| <b>Cash efficiency ratio</b>  |                 |          |          |          |          |
| Noninterest expense (GAAP)  | <b>\$ 703</b>   | \$ 736   | \$ 724   | \$ 711   | \$ 669   |
| Less: Intangible asset amortization   | <b>8</b>        | 9        | 9        | 9        | 9        |
| Adjusted noninterest expense (non-GAAP)   | <b>\$ 695</b>   | \$ 727   | \$ 715   | \$ 702   | \$ 660   |
| Less: Merger-related expense  | <b>24</b>       | 6        |          |          |          |
| Adjusted noninterest expense excluding merger-related expense (non-GAAP)                    | <b>\$ 671</b>   | \$ 721   | \$ 715   | \$ 702   | \$ 660   |
| Net interest income (GAAP)  | <b>\$ 604</b>   | \$ 602   | \$ 591   | \$ 584   | \$ 571   |
| Plus: Taxable-equivalent adjustment   | <b>8</b>        | 8        | 7        | 7        | 6        |

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|  |                  |           |           |           |           |
|--|------------------|-----------|-----------|-----------|-----------|
| Noninterest income (GAAP)  | <b>431</b>       | 485       | 470       | 488       | 437       |
| Total taxable-equivalent revenue (non-GAAP)  | <b>\$ 1,043</b>  | \$ 1,095  | \$ 1,068  | \$ 1,079  | \$ 1,014  |
| Cash efficiency ratio (non-GAAP)   | <b>66.6%</b>     | 66.4%     | 66.9%     | 65.1%     | 65.1%     |
| Cash efficiency ratio excluding merger-related expense (non-GAAP)  | <b>64.3%</b>     | 65.8%     | 66.9%     | 65.1%     | 65.1%     |
| <b>Return on average total assets from continuing operations excluding merger-related expense</b>            |                  |           |           |           |           |
| Income from continuing operations attributable to Key (GAAP)   | <b>\$ 187</b>    | \$ 230    | \$ 222    | \$ 235    | \$ 228    |
| Add: Merger-related expense, after tax   | <b>15</b>        | 4         |           |           |           |
| Income from continuing operations attributable to Key excluding merger-related expense, after tax (non-GAAP) | <b>\$ 202</b>    | \$ 234    | \$ 222    | \$ 235    | \$ 228    |
| Average total assets from continuing operations (GAAP)   | <b>\$ 94,477</b> | \$ 94,117 | \$ 92,649 | \$ 91,658 | \$ 89,627 |
| Return on average total assets from continuing operations excluding merger-related expense (non-GAAP)        | <b>.86%</b>      | .99%      | .95%      | 1.03%     | 1.03%     |

- (a) For the three months ended March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, intangible assets exclude \$40 million, \$45 million, \$50 million, \$55 million, and \$61 million, respectively, of period-end purchased credit card receivables.
- (b) Net of capital surplus.
- (c) For the three months ended March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, average intangible assets exclude \$42 million, \$47 million, \$52 million, \$58 million, and \$64 million, respectively, of average purchased credit card receivables.

**Table of Contents****Figure 7. GAAP to Non-GAAP Reconciliations, continued**

| <i>dollars in millions</i>  | <b>Three months ended<br/>3-31-16</b> |
|---|---------------------------------------|
| <b>Common Equity Tier 1 under the Regulatory Capital Rules<br/>(estimates)</b>                                      |                                       |
| Common Equity Tier 1 under current Regulatory Capital Rules   | \$ <b>9,965</b>                       |
| Adjustments from current Regulatory Capital Rules to the fully phased-in<br>Regulatory Capital Rules:               |                                       |
| Deferred tax assets and other intangible assets <sup>(d)</sup>  | <b>(24)</b>                           |
| <b>Common Equity Tier 1 anticipated under the fully phased-in Regulatory<br/>Capital Rules <sup>(e)</sup></b>       | <b>\$ 9,941</b>                       |
| <b>Net risk-weighted assets under current Regulatory Capital Rules</b>  | <b>\$ 90,014</b>                      |
| Adjustments from current Regulatory Capital Rules to the fully phased-in<br>Regulatory Capital Rules:               |                                       |
| Mortgage servicing assets <sup>(f)</sup>  | <b>476</b>                            |
| Volcker Funds   | <b>(290)</b>                          |
| All other assets  | <b>10</b>                             |
| <b>Total risk-weighted assets anticipated under the fully phased-in Regulatory<br/>Capital Rules <sup>(e)</sup></b> | <b>\$ 90,210</b>                      |
| <b>Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital<br/>Rules <sup>(e)</sup></b>             | <b>11.02%</b>                         |

- (d) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as intangible assets (other than goodwill and mortgage servicing assets) subject to the transition provisions of the final rule.
- (e) The anticipated amount of regulatory capital and risk-weighted assets is based upon the federal banking agencies Regulatory Capital Rules (as fully phased-in on January 1, 2019); we are subject to the Regulatory Capital Rules under the standardized approach.
- (f) Item is included in the 10%/15% exceptions bucket calculation and is risk-weighted at 250%.

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**Results of Operations**

**Net interest income**

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

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

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

the use of derivative instruments to manage interest rate risk;

interest rate fluctuations and competitive conditions within the marketplace; and

asset quality.

To make it easier to compare results among several periods and the yields on various types of earning assets (some taxable, some not), we present net interest income in this discussion on a taxable-equivalent basis (i.e., as if it were all taxable and at the same rate). For example, \$100 of tax-exempt income would be presented as \$154, an amount that if taxed at the statutory federal income tax rate of 35% would yield \$100.

Figure 8 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 taxable-equivalent 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 taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income was \$612 million for the first quarter of 2016, and the net interest margin was 2.89%. These results compare to taxable-equivalent net interest income of \$577 million and a net interest margin of 2.91% for the first quarter of 2015. The increase in net interest income reflects higher earning asset balances and an increase in earning asset yields, largely the result of our loan portfolio re-pricing to the higher short-term interest rates that resulted from the Federal Reserve's decision to raise the target range for the federal funds rate in mid-December of 2015. The net interest margin remained relatively stable, benefitting from higher earning asset yields, which were offset by higher levels of liquidity.

Average loans were \$60.2 billion for the first quarter of 2016, an increase of \$2.6 billion compared to the first quarter of 2015. The loan growth occurred primarily in the commercial, financial and agricultural portfolio, which increased \$3.3 billion and was spread across our commercial lines of business. Consumer loans declined \$432 million mostly due to paydowns on our prime-based home equity lines of credit and continued run-off in our consumer exit portfolios.



Average deposits, excluding deposits in foreign office, totaled \$71.6 billion for the first quarter of 2016, an increase of \$2.8 billion compared to the year-ago quarter. Interest-bearing deposits increased \$3.4 billion driven by a \$2.8 billion increase in NOW and money market deposit accounts and a \$727 million increase in certificates of deposit and other time deposits. The increase in NOW and money market deposit accounts reflects growth in the commercial mortgage servicing business and inflows from commercial and consumer clients, partially offset by lower public deposits. These increases in interest-bearing deposits were partially offset by a \$689 million decline in noninterest-bearing deposits.

**Table of Contents****Figure 8. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations**

| <i>dollars in millions</i>                                 | First Quarter 2016 |                         |                           | Fourth Quarter 2015 |                         |                           |
|--|--------------------|-------------------------|---------------------------|---------------------|-------------------------|---------------------------|
|  | Average Balance    | Interest <sup>(a)</sup> | Yield/Rate <sup>(a)</sup> | Average Balance     | Interest <sup>(a)</sup> | Yield/Rate <sup>(a)</sup> |
| <b>ASSETS</b>  |                    |                         |                           |                     |                         |                           |
| Loans <sup>(b), (c)</sup>                                  |                    |                         |                           |                     |                         |                           |
| Commercial, financial and agricultural <sup>(d)</sup>      | \$ 31,590          | \$ 263                  | 3.35%                     | \$ 30,884           | \$ 253                  | 3.25%                     |
| Real estate commercial mortgage                            | 8,138              | 77                      | 3.78                      | 8,019               | 75                      | 3.70                      |
| Real estate construction                                   | 1,016              | 10                      | 4.11                      | 1,067               | 10                      | 3.65                      |
| Commercial lease financing                                 | 3,957              | 36                      | 3.65                      | 3,910               | 36                      | 3.68                      |
| Total commercial loans                                     | 44,701             | 386                     | 3.47                      | 43,880              | 374                     | 3.38                      |
| Real estate residential mortgage                           | 2,236              | 24                      | 4.18                      | 2,252               | 24                      | 4.18                      |
| Home equity loans  | 10,240             | 103                     | 4.06                      | 10,418              | 105                     | 3.97                      |
| Consumer direct loans                                      | 1,593              | 26                      | 6.53                      | 1,605               | 26                      | 6.50                      |
| Credit cards   | 784                | 21                      | 10.72                     | 780                 | 21                      | 10.66                     |
| Consumer indirect loans                                    | 602                | 10                      | 6.44                      | 641                 | 10                      | 6.45                      |
| Total consumer loans                                       | 15,455             | 184                     | 4.76                      | 15,696              | 186                     | 4.69                      |
| Total loans  | 60,156             | 570                     | 3.80                      | 59,576              | 560                     | 3.72                      |
| Loans held for sale  | 826                | 8                       | 4.02                      | 841                 | 8                       | 4.13                      |
| Securities available for sale <sup>(b), (e)</sup>          | 14,207             | 75                      | 2.12                      | 14,168              | 76                      | 2.13                      |
| Held-to-maturity securities <sup>(b)</sup>                 | 4,817              | 24                      | 2.01                      | 4,908               | 24                      | 1.99                      |
| Trading account assets                                     | 817                | 7                       | 3.50                      | 822                 | 6                       | 3.31                      |
| Short-term investments                                     | 3,432              | 4                       | .46                       | 3,483               | 3                       | .28                       |
| Other investments <sup>(e)</sup>                           | 647                | 3                       | 1.73                      | 674                 | 4                       | 2.71                      |
| Total earning assets                                       | 84,902             | 691                     | 3.27                      | 84,472              | 681                     | 3.21                      |
| Allowance for loan and lease losses                        | (803)              |                         |                           | (790)               |                         |                           |
| Accrued income and other assets                            | 10,378             |                         |                           | 10,435              |                         |                           |
| Discontinued assets  | 1,804              |                         |                           | 1,947               |                         |                           |
| <b>Total assets</b>  | <b>\$ 96,281</b>   |                         |                           | <b>\$ 96,064</b>    |                         |                           |
| <b>LIABILITIES</b>   |                    |                         |                           |                     |                         |                           |
| NOW and money market deposit accounts                      | \$ 37,708          | 15                      | .16                       | \$ 37,640           | 14                      | .15                       |
| Savings deposits   | 2,349              |                         | .02                       | 2,338               |                         | .02                       |
| Certificates of deposit (\$100,000 or more) <sup>(f)</sup> | 2,761              | 10                      | 1.37                      | 2,150               | 7                       | 1.31                      |
| Other time deposits  | 3,200              | 6                       | .79                       | 3,047               | 5                       | .72                       |
| Deposits in foreign office                                 |                    |                         |                           | 354                 |                         | .24                       |
| Total interest-bearing deposits                            | 46,018             | 31                      | .27                       | 45,529              | 26                      | .24                       |
|  | 437                |                         | .07                       | 392                 |                         | .02                       |

|   |                  |               |              |           |        |       |
|---|------------------|---------------|--------------|-----------|--------|-------|
| Federal funds purchased and securities sold under repurchase agreements |                  |               |              |           |        |       |
| Bank notes and other short-term borrowings                              | <b>591</b>       | <b>2</b>      | <b>1.63</b>  | 556       | 3      | 1.65  |
| Long-term debt <sup>(f), (g)</sup>                                      | <b>8,566</b>     | <b>46</b>     | <b>2.19</b>  | 8,316     | 42     | 2.05  |
| Total interest-bearing liabilities                                      | <b>55,612</b>    | <b>79</b>     | <b>.57</b>   | 54,793    | 71     | .52   |
| Noninterest-bearing deposits  | <b>25,580</b>    |               |              | 26,292    |        |       |
| Accrued expense and other liabilities                                   | <b>2,322</b>     |               |              | 2,289     |        |       |
| Discontinued liabilities <sup>(g)</sup>                                 | <b>1,804</b>     |               |              | 1,947     |        |       |
| <b>Total liabilities</b>  | <b>85,318</b>    |               |              | 85,321    |        |       |
| <b>EQUITY</b>   |                  |               |              |           |        |       |
| Key shareholders' equity  | <b>10,953</b>    |               |              | 10,731    |        |       |
| Noncontrolling interests  | <b>10</b>        |               |              | 12        |        |       |
| Total equity  | <b>10,963</b>    |               |              | 10,743    |        |       |
| <b>Total liabilities and equity</b>                                     | <b>\$ 96,281</b> |               |              | \$ 96,064 |        |       |
| Interest rate spread (TE)   |                  |               | <b>2.70%</b> |           |        | 2.69% |
| Net interest income (TE) and net interest margin (TE)                   |                  | <b>612</b>    | <b>2.89%</b> |           | 610    | 2.87% |
| TE adjustment <sup>(b)</sup>  |                  | <b>8</b>      |              |           | 8      |       |
| Net interest income, GAAP basis   |                  | <b>\$ 604</b> |              |           | \$ 602 |       |

- (a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g) below, calculated using a matched funds transfer pricing methodology.
- (b) Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.
- (c) For purposes of these computations, nonaccrual loans are included in average loan balances.
- (d) Commercial, financial and agricultural average balances include \$85 million, \$87 million, \$88 million, \$88 million, and \$87 million of assets from commercial credit cards for the three months ended March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, respectively.

**Table of Contents****Figure 8. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations**

| Third Quarter 2015 |              |                | Second Quarter 2015 |              |                | First Quarter 2015 |              |                |
|--------------------|--------------|----------------|---------------------|--------------|----------------|--------------------|--------------|----------------|
| Average Balance    | Interest (a) | Yield/Rate (a) | Average Balance     | Interest (a) | Yield/Rate (a) | Average Balance    | Interest (a) | Yield/Rate (a) |
| \$ 30,374          | \$ 244       | 3.19%          | \$ 29,017           | \$ 233       | 3.23%          | \$ 28,321          | \$ 223       | 3.18%          |
| 7,988              | 73           | 3.65           | 7,981               | 74           | 3.70           | 8,095              | 73           | 3.67           |
| 1,164              | 11           | 3.78           | 1,199               | 11           | 3.60           | 1,139              | 11           | 3.90           |
| 3,946              | 35           | 3.57           | 3,981               | 36           | 3.58           | 4,070              | 36           | 3.57           |
| 43,472             | 363          | 3.32           | 42,178              | 354          | 3.36           | 41,625             | 343          | 3.33           |
| 2,258              | 24           | 4.19           | 2,237               | 23           | 4.22           | 2,229              | 24           | 4.26           |
| 10,510             | 105          | 3.96           | 10,510              | 104          | 3.98           | 10,576             | 104          | 3.99           |
| 1,597              | 26           | 6.53           | 1,571               | 26           | 6.52           | 1,546              | 25           | 6.63           |
| 759                | 21           | 10.74          | 737                 | 19           | 10.57          | 732                | 20           | 11.01          |
| 685                | 11           | 6.47           | 745                 | 12           | 6.38           | 804                | 13           | 6.41           |
| 15,809             | 187          | 4.69           | 15,800              | 184          | 4.69           | 15,887             | 186          | 4.73           |
| 59,281             | 550          | 3.69           | 57,978              | 538          | 3.72           | 57,512             | 529          | 3.72           |
| 939                | 10           | 3.96           | 1,263               | 12           | 3.91           | 795                | 7            | 3.33           |
| 14,247             | 74           | 2.11           | 13,360              | 73           | 2.17           | 13,087             | 70           | 2.17           |
| 4,923              | 24           | 1.95           | 4,965               | 24           | 1.91           | 4,947              | 24           | 1.93           |
| 699                | 5            | 2.50           | 805                 | 5            | 2.55           | 717                | 5            | 2.80           |
| 2,257              | 1            | .26            | 3,228               | 2            | .26            | 2,399              | 2            | .27            |
| 696                | 4            | 2.52           | 713                 | 5            | 2.48           | 742                | 5            | 2.79           |
| 83,042             | 668          | 3.21           | 82,312              | 659          | 3.21           | 80,199             | 642          | 3.23           |
| (790)              |              |                | (793)               |              |                | (793)              |              |                |
| 10,397             |              |                | 10,139              |              |                | 10,221             |              |                |
| 2,118              |              |                | 2,194               |              |                | 2,271              |              |                |
| \$ 94,767          |              |                | \$ 93,852           |              |                | \$ 91,898          |              |                |
| \$ 36,289          | 15           | .16            | \$ 36,122           | 14           | .16            | \$ 34,952          | 13           | .15            |
| 2,371              |              | .02            | 2,393               |              | .02            | 2,385              |              | .02            |
| 1,985              | 6            | 1.27           | 2,010               | 6            | 1.25           | 2,017              | 7            | 1.30           |
| 3,064              | 6            | .70            | 3,136               | 5            | .70            | 3,217              | 6            | .72            |
| 492                |              | .23            | 583                 | 1            | .23            | 529                |              | .22            |
| 44,201             | 27           | .24            | 44,244              | 26           | .24            | 43,100             | 26           | .24            |
| 859                |              | .08            | 557                 |              | .02            | 720                |              | .03            |
| 567                | 2            | 1.51           | 657                 | 2            | 1.39           | 506                | 2            | 1.56           |
| 7,893              | 41           | 2.20           | 6,967               | 40           | 2.30           | 6,124              | 37           | 2.52           |

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|           |        |       |           |        |       |           |        |       |
|-----------|--------|-------|-----------|--------|-------|-----------|--------|-------|
| 53,520    | 70     | .53   | 52,425    | 68     | .52   | 50,450    | 65     | .52   |
| 26,268    |        |       | 26,594    |        |       | 26,269    |        |       |
| 2,236     |        |       | 2,039     |        |       | 2,327     |        |       |
| 2,118     |        |       | 2,194     |        |       | 2,271     |        |       |
| 84,142    |        |       | 83,252    |        |       | 81,317    |        |       |
| 10,614    |        |       | 10,590    |        |       | 10,570    |        |       |
| 11        |        |       | 10        |        |       | 11        |        |       |
| 10,625    |        |       | 10,600    |        |       | 10,581    |        |       |
| \$ 94,767 |        |       | \$ 93,852 |        |       | \$ 91,898 |        |       |
|           |        | 2.68% |           |        | 2.69% |           |        | 2.71% |
|           | 598    | 2.87% |           | 591    | 2.88% |           | 577    | 2.91% |
|           | 7      |       |           | 7      |       |           | 6      |       |
|           | \$ 591 |       |           | \$ 584 |       |           | \$ 571 |       |

(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 9 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 9. Components of Net Interest Income Changes from Continuing Operations**

| <i>in millions</i>                          | From three months ended March 31, 2015<br>to three months ended March 31, 2016 |                |                              |
|---|--|----------------|------------------------------|
|   | Average<br>Volume  | Yield/<br>Rate | Net<br>Change <sup>(a)</sup> |
| <b>INTEREST INCOME</b>                      |  |                |                              |
| Loans                                       | \$ 25  | \$ 16          | \$ 41                        |
| Loans held for sale                         |  | 1              | 1                            |
| Securities available for sale               | 6  | (1)            | 5                            |
| Held-to-maturity securities                 | (1)  | 1              |                              |
| Trading account assets                      | 1  | 1              | 2                            |
| Short-term investments                      | 1  | 1              | 2                            |
| Other investments                           | (1)  | (1)            | (2)                          |
| <b>Total interest income (TE)</b>           | <b>31</b>  | <b>18</b>      | <b>49</b>                    |
| <b>INTEREST EXPENSE</b>                     |  |                |                              |
| NOW and money market deposit accounts       | 1  | 1              | 2                            |
| Certificates of deposit (\$100,000 or more) | 3  |                | 3                            |
| <b>Total interest-bearing deposits</b>      | <b>4</b>   | <b>1</b>       | <b>5</b>                     |
| Long-term debt                              | 13   | (4)            | 9                            |
| <b>Total interest expense</b>               | <b>17</b>  | <b>(3)</b>     | <b>14</b>                    |
| <b>Net interest income (TE)</b>             | <b>\$ 14</b>   | <b>\$ 21</b>   | <b>\$ 35</b>                 |

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

**Noninterest income**

As shown in Figure 10, noninterest income was \$431 million for the first quarter of 2016, compared to \$437 million for the year-ago quarter, a decrease of \$6 million, or 1.4%. The decrease from the prior year was largely attributable to lower net gains from principal investing of \$29 million, reflecting market weakness. This decline was offset by an increase in other income of \$12 million primarily related to gains from certain real estate investments, along with continued growth in some of our core fee-based businesses, including corporate services and cards and payments.

**Figure 10. Noninterest Income**

| <i>dollars in millions</i>                     | Three months ended |                   | Change |         |
|--|--------------------|-------------------|--------|---------|
|  | 2016               | March 31,<br>2015 | Amount | Percent |
| Trust and investment services income           | \$ 109             | \$ 109            |        |         |
| Investment banking and debt placement fees     | 71                 | 68                | \$ 3   | 4.4%    |
| Service charges on deposit accounts            | 65                 | 61                | 4      | 6.6     |
| Operating lease income and other leasing gains | 17                 | 19                | (2)    | (10.5)  |
| Corporate services income                      | 50                 | 43                | 7      | 16.3    |
| Cards and payments income                      | 46                 | 42                | 4      | 9.5     |
| Corporate-owned life insurance income          | 28                 | 31                | (3)    | (9.7)   |
| Consumer mortgage income                       | 2                  | 3                 | (1)    | (33.3)  |
| Mortgage servicing fees                        | 12                 | 13                | (1)    | (7.7)   |
| Net gains (losses) from principal investing    |                    | 29                | (29)   | N/M     |
| Other income <sup>(a)</sup>                    | 31                 | 19                | 12     | 63.2    |
| Total noninterest income                       | \$ 431             | \$ 437            | \$ (6) | (1.4)%  |

- (a) Included in this line item is our Dealer trading and derivatives income (loss). Additional detail is provided in Figure 11.

Table of Contents**Figure 11. Dealer Trading and Derivatives Income (Loss)**

| <i>dollars in millions</i>  | Three months ended |             | Change      |              |
|---|--------------------|-------------|-------------|--------------|
|   | 2016               | 2015        | Amount      | Percent      |
| Dealer trading and derivatives income (loss), proprietary <sup>(a)</sup> ,<br>(b) | \$ (1)             | \$ (1)      |             | N/M          |
| Dealer trading and derivatives income (loss), nonproprietary<br>(b)               | 9                  | 3           | \$ 6        | 200.0%       |
| <b>Total dealer trading and derivatives income (loss)</b>                         | <b>\$ 8</b>        | <b>\$ 2</b> | <b>\$ 6</b> | <b>300.0</b> |

- (a) For the quarter ended March 31, 2016, income of \$2 million related to fixed income, foreign exchange, interest rates, and commodity derivative trading was offset by losses related to equity securities trading and credit portfolio management activities. For the quarter ended March 31, 2015, income of \$1 million related to foreign exchange, interest rate, fixed income, and commodity derivative trading was offset by losses related to equity securities trading and credit portfolio management activities.
- (b) The allocation between proprietary and nonproprietary is made based upon whether the trade is conducted for the benefit of Key or Key's clients rather than based upon rulemaking under the Volcker Rule. Prohibitions and restrictions on proprietary trading activities imposed by the Volcker Rule became effective April 1, 2014. For more information, see the discussion under the heading "Other Regulatory Developments under the Dodd-Frank Act - Volcker Rule" in the section entitled "Supervision and Regulation" in Item 1 of our 2015 Form 10-K. The following discussion explains the composition of certain elements of our noninterest income and the factors that caused those elements to change.

Trust and investment services income

Trust and investment services income is one of our largest sources of noninterest income and consists of brokerage commissions, trust and asset management commissions, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 12. For the three months ended March 31, 2016, trust and investment services income was flat compared to the same period one year ago. Compared to the year-ago quarter, insurance income increased, offset by decreases in trust and asset management and 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, 2016, our bank, trust, and registered investment advisory subsidiaries had assets under management of \$34.1 billion, compared to \$39.3 billion at March 31, 2015. The decreases in the equity, securities lending, and fixed income portfolios, as shown in Figure 12, were primarily attributable to client attrition and market declines. These declines were partially offset by an increase in the money market portfolio.

**Figure 12. Assets Under Management**

2016

2015



| <i>in millions</i>                          | <b>First</b>     | <b>Fourth</b> | <b>Third</b> | <b>Second</b> | <b>First</b> |
|---|------------------|---------------|--------------|---------------|--------------|
| Assets under management by investment type: |                  |               |              |               |              |
| Equity                                      | <b>\$ 20,210</b> | \$ 20,199     | \$ 19,728    | \$ 21,226     | \$ 21,681    |
| Securities lending                          | <b>1,147</b>     | 1,215         | 2,872        | 4,438         | 4,625        |
| Fixed income                                | <b>9,789</b>     | 9,705         | 9,823        | 9,899         | 10,127       |
| Money market                                | <b>2,961</b>     | 2,864         | 2,735        | 2,836         | 2,848        |
| Total                                       | <b>\$ 34,107</b> | \$ 33,983     | \$ 35,158    | \$ 38,399     | \$ 39,281    |

#### Investment banking and debt placement fees

Investment banking and debt placement fees consist of syndication fees, debt and equity financing fees, financial advisor fees, gains on sales of commercial mortgages, and agency origination fees. For the first quarter of 2016, investment banking and debt placement fees increased \$3 million, or 4.4%, from the prior year. This increase was primarily driven by higher loan syndication and merger and acquisition fees.

#### Service charges on deposit accounts

Service charges on deposit accounts increased \$4 million, or 6.6%, from one year ago primarily due to higher account analysis fees.

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### Operating lease income and other leasing gains

Operating lease income and other leasing gains decreased \$2 million, or 10.5%, for the first quarter of 2016 compared to the same period one year ago. This decline was primarily due to lower gains realized on the sale of returned leased equipment. The expense related to the rental of leased equipment is presented in Figure 13 as operating lease expense.

### Corporate services income

Corporate services income increased \$7 million, or 16.3%, from one year ago driven by higher non-yield loan fees, dealer trading and derivatives income, and foreign exchange trading income.

### Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased \$4 million, or 9.5%, from the year-ago quarter. This increase was due to higher purchase card, credit card, and ATM debit card fees driven by increased volume.

### Consumer mortgage income

Consumer mortgage income decreased \$1 million, or 33.3%, from one year ago primarily due to lower gains on consumer mortgage loans sold.

### Mortgage servicing fees

Mortgage servicing fees decreased \$1 million, or 7.7%, from one year ago due to lower levels of miscellaneous mortgage banking fees.

### Other income

Other income, which consists primarily of gains on sales of loans held for sale, other service charges, and certain dealer trading income, increased \$12 million, or 63.2%, from the year-ago quarter primarily due to gains from certain real estate investments.

Table of Contents**Noninterest expense**

As shown in Figure 13, noninterest expense was \$703 million for the first quarter of 2016, compared to \$669 million for the year-ago quarter, representing an increase of \$34 million, or 5.1%. Noninterest expense included \$24 million of merger-related expense comprising \$16 million in personnel expense related to technology development for systems conversions and fully dedicated personnel for acquisition and integration efforts. The remaining \$8 million of merger-related expense was nonpersonnel expense, largely recognized in business services and professional fees.

Excluding merger-related expense, noninterest expense was \$10 million higher than the first quarter of 2015, primarily attributable to slight increases across various nonpersonnel areas.

**Figure 13. Noninterest Expense**

| <i>dollars in millions</i>  | Three months ended |        | Change |         |
|---|--------------------|--------|--------|---------|
|   | 2016               | 2015   | Amount | Percent |
| Personnel <sup>(a)</sup>  | \$ 404             | \$ 389 | \$ 15  | 3.9%    |
| Net occupancy   | 61                 | 65     | (4)    | (6.2)   |
| Computer processing   | 43                 | 38     | 5      | 13.2    |
| Business services and professional fees                                   | 41                 | 33     | 8      | 24.2    |
| Equipment   | 21                 | 22     | (1)    | (4.5)   |
| Operating lease expense   | 13                 | 11     | 2      | 18.2    |
| Marketing   | 12                 | 8      | 4      | 50.0    |
| FDIC assessment   | 9                  | 8      | 1      | 12.5    |
| Intangible asset amortization   | 8                  | 9      | (1)    | (11.1)  |
| OREO expense, net   | 1                  | 2      | (1)    | (50.0)  |
| Other expense   | 90                 | 84     | 6      | 7.1     |
| Total noninterest expense   | \$ 703             | \$ 669 | 34     | 5.1%    |
| Merger-related expense  | 24                 |        | 24     | N/M     |
| Total noninterest expense excluding merger-related expense <sup>(b)</sup> | \$ 679             | \$ 669 | 10     | 1.5     |
| Average full-time equivalent employees <sup>(c)</sup>                     | 13,403             | 13,591 | (188)  | (1.4)%  |

(a) Additional detail provided in table below.

(b) Non-GAAP measure. See Figure 7 entitled GAAP to Non-GAAP Reconciliations.

(c) The number of average full-time equivalent employees has not been adjusted for discontinued operations.

Personnel

As shown in Figure 14, personnel expense, the largest category of our noninterest expense, increased by \$15 million, or 3.9%, for the first quarter of 2016 compared to the year-ago quarter. Personnel expense included \$16 million of merger-related expense related to technology development for system conversions and fully dedicated personnel for

acquisition and integration efforts. Personnel expense, adjusting for merger-related expense, declined \$1 million from the first quarter of 2015 due to lower employee benefits and severance expenses offsetting higher salaries and performance-based compensation.

**Figure 14. Personnel Expense**

| <i>dollars in millions</i>             | Three months ended |               | Change       |             |
|--|--------------------|---------------|--------------|-------------|
|  | 2016               | 2015          | Amount       | Percent     |
| Salaries and contract labor            | \$ 244             | \$ 228        | \$ 16        | 7.0%        |
| Incentive and stock-based compensation | 89                 | 83            | 6            | 7.2         |
| Employee benefits                      | 68                 | 72            | (4)          | (5.6)       |
| Severance                              | 3                  | 6             | (3)          | (50.0)      |
| <b>Total personnel expense</b>         | <b>\$ 404</b>      | <b>\$ 389</b> | <b>\$ 15</b> | <b>3.9%</b> |

Net occupancy

Net occupancy expense decreased \$4 million, or 6.2%, for the first quarter of 2016 compared to the same period one year ago primarily due to lower rental expenses.

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**Operating lease expense**

Operating lease expense increased \$2 million, or 18.2%, from the year-ago quarter due to increased depreciation expense on operating lease equipment. Income related to the rental of leased equipment is presented in Figure 10 as operating lease income and other leasing gains.

**Other expense**

Other expense comprises various miscellaneous expense items. The \$6 million, or 7.1%, increase in the current quarter compared to the year-ago quarter reflects fluctuations in several miscellaneous line items.

**Income taxes**

We recorded tax expense from continuing operations of \$56 million for the first quarter of 2016 and \$74 million for the first quarter of 2015.

Our federal tax expense (benefit) 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.

Additional information pertaining to how our tax expense (benefit) and the resulting effective tax rates were derived is included in Note 12 ( Income Taxes ) beginning on page 184 of our 2015 Form 10-K.

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This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 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 15 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, 2016, and March 31, 2015.

**Figure 15. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key**

| <i>dollars in millions</i>  | Three months ended |          | Change  |         |
|---|--------------------|----------|---------|---------|
|   | 2016               | 2015     | Amount  | Percent |
| <b>REVENUE FROM CONTINUING OPERATIONS (TE)</b>                      |                    |          |         |         |
| Key Community Bank  | \$ 595             | \$ 549   | \$ 46   | 8.4%    |
| Key Corporate Bank  | 426                | 402      | 24      | 6.0     |
| Other Segments  | 21                 | 66       | (45)    | (68.2)  |
| Total Segments  | 1,042              | 1,017    | 25      | 2.5     |
| Reconciling Items   | 1                  | (3)      | 4       | N/M     |
| Total   | \$ 1,043           | \$ 1,014 | \$ 29   | 2.9%    |
| <b>INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY</b> |                    |          |         |         |
| Key Community Bank  | \$ 74              | \$ 51    | \$ 23   | 45.1%   |
| Key Corporate Bank  | 118                | 127      | (9)     | (7.1)   |
| Other Segments  | 14                 | 43       | (29)    | (67.4)  |
| Total Segments  | 206                | 221      | (15)    | (6.8)   |
| Reconciling Items   | (19)               | 7        | (26)    | N/M     |
| Total   | \$ 187             | \$ 228   | \$ (41) | (18.0)% |

**Key Community Bank summary of operations**

Positive operating leverage from prior year

Net income increased to \$74 million, 45.1% growth from prior year

Commercial, financial and agricultural loan growth of \$529 million, or 4.3% from prior year

Average deposits up \$2.4 billion, or 4.7% from the prior year

As shown in Figure 16, Key Community Bank recorded net income attributable to Key of \$74 million for the first quarter of 2016, compared to net income attributable to Key of \$51 million for the year-ago quarter.

Taxable-equivalent net interest income increased by \$41 million, or 11.5%, from the first quarter of 2015 due to favorable deposit rates and volume with increases in average deposits of \$2.4 billion, or 4.7%, from one year ago, as well as growth in average loans and leases of \$127 million, or .4%. Commercial, financial and agricultural loans grew by \$529 million, or 4.3%, from the prior year.

Noninterest income increased \$5 million, or 2.6%, from the year-ago quarter. Core fee-based businesses continue to show positive trends, as cards and payments income increased \$5 million and service charges on deposit accounts increased \$3 million. These increases were partially offset by market weakness affecting Key's Private Bank as well as lower foreign exchange revenue.

The provision for credit losses increased by \$12 million, or 40%, from the first quarter of 2015, primarily due to credit migration reflecting current market conditions, along with additional reserves for continued growth. Additionally, net loan charge-offs decreased \$5 million from the same period one year ago.

Noninterest expense decreased by \$2 million, or .5%, from the year-ago quarter, driven by a decrease in personnel costs related to lower salary and employee benefits expenses.

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**Figure 16. Key Community Bank**

| <i>dollars in millions</i>                          | Three months ended<br>March 31, |           | Change     |         |
|---|---------------------------------|-----------|------------|---------|
|   | 2016                            | 2015      | Amount     | Percent |
| <b>SUMMARY OF OPERATIONS</b>                        |                                 |           |            |         |
| Net interest income (TE)                            | \$ 399                          | \$ 358    | \$ 41      | 11.5%   |
| Noninterest income                                  | 196                             | 191       | 5          | 2.6     |
| Total revenue (TE)                                  | 595                             | 549       | 46         | 8.4     |
| Provision for credit losses                         | 42                              | 30        | 12         | 40.0    |
| Noninterest expense                                 | 436                             | 438       | (2)        | (.5)    |
| Income (loss) before income taxes (TE)              | 117                             | 81        | 36         | 44.4    |
| Allocated income taxes (benefit) and TE adjustments | 43                              | 30        | 13         | 43.3    |
| Net income (loss) attributable to Key               | \$ 74                           | \$ 51     | \$ 23      | 45.1%   |
| <b>AVERAGE BALANCES</b>                             |                                 |           |            |         |
| Loans and leases                                    | \$ 30,789                       | \$ 30,662 | \$ 127     | .4%     |
| Total assets  | 32,856                          | 32,768    | 88         | .3      |
| Deposits  | 52,803                          | 50,415    | 2,388      | 4.7     |
| Assets under management at period end               | \$ 34,107                       | \$ 39,281 | \$ (5,174) | (13.2)% |
| <b>ADDITIONAL KEY COMMUNITY BANK DATA</b>           |                                 |           |            |         |
|   |                                 |           |            |         |
| <i>dollars in millions</i>                          | Three months ended<br>March 31, |           | Change     |         |
|   | 2016                            | 2015      | Amount     | Percent |
| <b>NONINTEREST INCOME</b>                           |                                 |           |            |         |
| Trust and investment services income                | \$ 73                           | \$ 74     | \$ (1)     | (1.4)%  |
| Services charges on deposit accounts                | 54                              | 51        | 3          | 5.9     |
| Cards and payments income                           | 43                              | 38        | 5          | 13.2    |
| Other noninterest income                            | 26                              | 28        | (2)        | (7.1)   |
| Total noninterest income                            | \$ 196                          | \$ 191    | \$ 5       | 2.6%    |
| <b>AVERAGE DEPOSITS OUTSTANDING</b>                 |                                 |           |            |         |
| NOW and money market deposit accounts               | \$ 29,432                       | \$ 27,873 | \$ 1,559   | 5.6%    |
| Savings deposits                                    | 2,340                           | 2,377     | (37)       | (1.6)   |
| Certificates of deposits (\$100,000 or more)        | 2,120                           | 1,558     | 562        | 36.1    |
| Other time deposits                                 | 3,197                           | 3,211     | (14)       | (.4)    |
| Deposits in foreign office                          |                                 | 333       | (333)      | N/M     |
| Noninterest-bearing deposits                        | 15,714                          | 15,063    | 651        | 4.3     |



|                |                  |           |          |      |
|----------------|------------------|-----------|----------|------|
| Total deposits | <b>\$ 52,803</b> | \$ 50,415 | \$ 2,388 | 4.7% |
|----------------|------------------|-----------|----------|------|

**HOME EQUITY LOANS**

|   |                  |           |  |  |
|---|------------------|-----------|--|--|
| Average balance   | <b>\$ 10,037</b> | \$ 10,316 |  |  |
| Weighted-average loan-to-value ratio (at date of origination) | <b>71%</b>       | 71%       |  |  |
| Percent first lien positions                                  | <b>61</b>        | 60        |  |  |

**OTHER DATA**

|                           |              |       |  |  |
|---------------------------|--------------|-------|--|--|
| Branches                  | <b>961</b>   | 992   |  |  |
| Automated teller machines | <b>1,249</b> | 1,287 |  |  |

**Key Corporate Bank summary of operations**

Average loan and lease balances up 12.1% from the prior year

Revenue up 6.0% from the prior year

Noninterest income up 10.6% from the prior year

As shown in Figure 17, Key Corporate Bank recorded net income attributable to Key of \$118 million for the first quarter of 2016, compared to \$127 million for the same period one year ago.

Taxable-equivalent net interest income increased by \$4 million, or 1.9%, compared to the first quarter of 2015. Average loan and lease balances increased \$3 billion, or 12.1%, from the year-ago quarter, primarily driven by growth in commercial, financial and agricultural loans. This growth in loan and lease balances drove an increase of \$5 million in earning asset spread. Average deposit balances decreased \$495 million, or 2.7%, from the year-ago quarter, driven by lower public deposits. Although deposit balances decreased, there was a higher mix of transactional deposit balances that drove an increase of \$2 million in deposit and borrowing spread. The earning asset and deposit and borrowing spread increases were partially offset by slight decreases across various other items.

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Noninterest income was up \$20 million, or 10.6%, from the prior year. Other noninterest income increased \$13 million from the year-ago quarter mostly due to gains from certain real estate investments. Corporate services income was up \$6 million due to growth in commitment fees, derivatives, and foreign exchange. Investment banking and debt placement fees increased by \$2 million due to higher loan syndication and merger and acquisition fees. Partially offsetting these increases were slight declines in operating lease income and other leasing gains and cards and payments income of \$1 million each.

The provision for credit losses increased \$37 million, or 616.7%, compared to the first quarter of 2015 due to \$22 million of higher net loan charge-offs and credit migration in the oil and gas portfolio.

Noninterest expense increased by \$18 million, or 8.2%, from the first quarter of 2015. Increased personnel costs and higher operating leases expenses were the primary drivers.

**Figure 17. Key Corporate Bank**

| <i>dollars in millions</i>                                       | Three months ended |           | Change   |         |
|--|--------------------|-----------|----------|---------|
|  | 2016               | 2015      | Amount   | Percent |
| <b>SUMMARY OF OPERATIONS</b>                                     |                    |           |          |         |
| Net interest income (TE)   | \$ 218             | \$ 214    | \$ 4     | 1.9%    |
| Noninterest income   | 208                | 188       | 20       | 10.6    |
| Total revenue (TE)   | 426                | 402       | 24       | 6.0     |
| Provision for credit losses                                      | 43                 | 6         | 37       | 616.7   |
| Noninterest expense  | 237                | 219       | 18       | 8.2     |
| Income (loss) before income taxes (TE)                           | 146                | 177       | (31)     | (17.5)  |
| Allocated income taxes and TE adjustments                        | 28                 | 49        | (21)     | (42.9)  |
| Net income (loss)  | 118                | 128       | (10)     | (7.8)   |
| Less: Net income (loss) attributable to noncontrolling interests |                    | 1         | (1)      | N/M     |
| Net income (loss) attributable to Key                            | \$ 118             | \$ 127    | \$ (9)   | (7.1)%  |
| <b>AVERAGE BALANCES</b>  |                    |           |          |         |
| Loans and leases   | \$ 27,722          | \$ 24,722 | \$ 3,000 | 12.1%   |
| Loans held for sale  | 811                | 775       | 36       | 4.6     |
| Total assets   | 33,413             | 30,240    | 3,173    | 10.5    |
| Deposits   | 18,074             | 18,569    | (495)    | (2.7)   |
| <b>ADDITIONAL KEY CORPORATE BANK DATA</b>                        |                    |           |          |         |

Three months ended

| <i>dollars in millions</i>                     | <b>March 31,</b> |               | <b>Change</b> |                |
|--|------------------|---------------|---------------|----------------|
|  | <b>2016</b>      | <b>2015</b>   | <b>Amount</b> | <b>Percent</b> |
| <b>NONINTEREST INCOME</b>                      |                  |               |               |                |
| Trust and investment services income           | \$ 36            | \$ 35         | \$ 1          | 2.9%           |
| Investment banking and debt placement fees     | 70               | 68            | 2             | 2.9            |
| Operating lease income and other leasing gains | 13               | 14            | (1)           | (7.1)          |
| Corporate services income                      | 38               | 32            | 6             | 18.8           |
| Service charges on deposit accounts            | 11               | 10            | 1             | 10.0           |
| Cards and payments income                      | 3                | 4             | (1)           | (25.0)         |
| Payments and services income                   | 52               | 46            | 6             | 13.0           |
| Mortgage servicing fees                        | 12               | 13            | (1)           | (7.7)          |
| Other noninterest income                       | 25               | 12            | 13            | 108.3          |
| <b>Total noninterest income</b>                | <b>\$ 208</b>    | <b>\$ 188</b> | <b>\$ 20</b>  | <b>10.6%</b>   |

### Other Segments

Other Segments consists of Corporate Treasury, Key's Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of \$14 million for the first quarter of 2016, compared to \$43 million for the same period last year. This decline was largely attributable to lower net gains from principal investing of \$29 million.

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**Financial Condition**

**Loans and loans held for sale**

At March 31, 2016, total loans outstanding from continuing operations were \$60.4 billion, compared to \$59.9 billion at December 31, 2015, and \$58 billion at March 31, 2015. The increase in our outstanding loans from continuing operations over the past twelve months results primarily from increased lending activity in our commercial, financial and agricultural portfolio. Loans related to the discontinued operations of the education lending business, which are excluded from total loans at March 31, 2016, December 31, 2015, and March 31, 2015, totaled \$1.8 billion, \$1.8 billion, and \$2.2 billion, respectively. 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 121 of our 2015 Form 10-K.

**Commercial loan portfolio**

Commercial loans outstanding were \$45.1 billion at March 31, 2016, an increase of \$3 billion, or 7%, compared to March 31, 2015.

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Figure 18 provides our commercial loan portfolios by industry classification at March 31, 2016, December 31, 2015, and March 31, 2015.

**Figure 18. Commercial Loans by Industry**

| <b>March 31, 2016</b>                  | <b>Commercial,<br/>financial<br/>and<br/>agricultural</b> | <b>Commercial<br/>real<br/>estate</b> | <b>Commercial<br/>lease<br/>financing</b> | <b>Total commercial<br/>loans</b> | <b>Percent of<br/>total</b> |
|--|---|---------------------------------------|---|-----------------------------------|-----------------------------|
| <i>dollars in millions</i>             |   |                                       |   |                                   |                             |
| Industry classification:               |   |                                       |   |                                   |                             |
| Agricultural                           | \$ 682  | \$ 151                                | \$ 141                                    | \$ 974                            | 2.2%                        |
| Automotive                             | 1,768   | 394                                   | 28  | 2,190                             | 4.8                         |
| Business products                      | 1,130   | 121                                   | 34  | 1,285                             | 2.8                         |
| Business services                      | 2,369   | 112                                   | 284                                       | 2,765                             | 6.1                         |
| Commercial real estate                 | 3,930   | 5,436                                 | 2   | 9,368                             | 20.8                        |
| Construction materials and contractors | 836   | 144                                   | 66  | 1,046                             | 2.3                         |
| Consumer discretionary                 | 2,594   | 348                                   | 257                                       | 3,199                             | 7.1                         |
| Consumer services                      | 1,654   | 384                                   | 74  | 2,112                             | 4.7                         |
| Equipment                              | 1,289   | 69                                    | 60  | 1,418                             | 3.1                         |
| Financial                              | 3,129   | 68                                    | 259                                       | 3,456                             | 7.7                         |
| Healthcare                             | 2,948   | 1,487                                 | 470                                       | 4,905                             | 10.9                        |
| Materials manufacturing and mining     | 2,226   | 165                                   | 184                                       | 2,575                             | 5.7                         |
| Media                                  | 328   | 28                                    | 77  | 433                               | 1.0                         |
| Oil and gas                            | 1,180   | 55                                    | 63  | 1,298                             | 2.9                         |
| Public exposure                        | 1,515   | 146                                   | 828                                       | 2,489                             | 5.5                         |
| Technology                             | 372   | 4                                     | 22  | 398                               | .9                          |
| Transportation                         | 797   | 86                                    | 832                                       | 1,715                             | 3.8                         |
| Utilities                              | 2,799   | 5                                     | 253                                       | 3,057                             | 6.8                         |
| Other                                  | 430   | 2                                     |   | 432                               | .9                          |
| <b>Total</b>                           | <b>\$ 31,976</b>  | <b>\$ 9,205</b>                       | <b>\$ 3,934</b>                           | <b>\$ 45,115</b>                  | <b>100.0%</b>               |

| <b>December 31, 2015</b>               | <b>Commercial,<br/>financial<br/>and<br/>agricultural</b> | <b>Commercial<br/>real<br/>estate</b> | <b>Commercial<br/>lease<br/>financing</b> | <b>Total<br/>commercial<br/>loans</b> | <b>Percent<br/>of<br/>total</b> |
|--|---|---------------------------------------|---|---------------------------------------|---------------------------------|
| <i>dollars in millions</i>             |   |                                       |   |                                       |                                 |
| Industry classification:               |   |                                       |   |                                       |                                 |
| Agricultural                           | \$ 745  | \$ 147                                | \$ 143                                    | \$ 1,035                              | 2.3%                            |
| Automotive                             | 1,736   | 387                                   | 31  | 2,154                                 | 4.9                             |
| Business products                      | 1,093   | 115                                   | 40  | 1,248                                 | 2.8                             |
| Business services                      | 2,222   | 116                                   | 293                                       | 2,631                                 | 5.9                             |
| Commercial real estate                 | 3,906   | 5,387                                 | 2   | 9,295                                 | 21.0                            |
| Construction materials and contractors | 750   | 141                                   | 67  | 958                                   | 2.2                             |

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|                                    |                  |                 |                 |                  |               |
|------------------------------------|------------------|-----------------|-----------------|------------------|---------------|
| Consumer discretionary             | 2,521            | 347             | 270             | 3,138            | 7.1           |
| Consumer services                  | 1,683            | 452             | 73              | 2,208            | 5.0           |
| Equipment                          | 1,170            | 79              | 50              | 1,299            | 2.9           |
| Financial                          | 3,347            | 68              | 270             | 3,685            | 8.3           |
| Healthcare                         | 3,089            | 1,281           | 493             | 4,863            | 11.0          |
| Materials manufacturing and mining | 2,074            | 164             | 183             | 2,421            | 5.5           |
| Media                              | 349              | 22              | 88              | 459              | 1.0           |
| Oil and gas                        | 1,080            | 52              | 67              | 1,199            | 2.7           |
| Public exposure                    | 1,477            | 148             | 856             | 2,481            | 5.6           |
| Technology                         | 354              | 5               | 22              | 381              | .9            |
| Transportation                     | 806              | 90              | 836             | 1,732            | 3.9           |
| Utilities                          | 2,482            | 5               | 236             | 2,723            | 6.2           |
| Other                              | 356              | 6               |                 | 362              | .8            |
| <b>Total</b>                       | <b>\$ 31,240</b> | <b>\$ 9,012</b> | <b>\$ 4,020</b> | <b>\$ 44,272</b> | <b>100.0%</b> |

| <b>March 31, 2015</b>                  | <b>Commercial,</b>                |                               |                                   | <b>Total commercial loans</b> | <b>Percent of total</b> |
|--|-----------------------------------|-------------------------------|-----------------------------------|-------------------------------|-------------------------|
|  | <b>financial and agricultural</b> | <b>Commercial real estate</b> | <b>Commercial lease financing</b> |                               |                         |
| <i>dollars in millions</i>             |                                   |                               |                                   |                               |                         |
| Industry classification:               |                                   |                               |                                   |                               |                         |
| Agricultural                           | \$ 653                            | \$ 135                        | \$ 115                            | \$ 903                        | 2.1%                    |
| Automotive                             | 1,712                             | 407                           | 47                                | 2,166                         | 5.1                     |
| Business products                      | 1,177                             | 126                           | 25                                | 1,328                         | 3.2                     |
| Business services                      | 2,016                             | 128                           | 285                               | 2,429                         | 5.8                     |
| Commercial real estate                 | 3,262                             | 5,425                         | 3                                 | 8,690                         | 20.6                    |
| Construction materials and contractors | 748                               | 179                           | 68                                | 995                           | 2.4                     |
| Consumer discretionary                 | 2,397                             | 339                           | 269                               | 3,005                         | 7.1                     |
| Consumer services                      | 1,430                             | 500                           | 86                                | 2,016                         | 4.8                     |
| Equipment                              | 1,207                             | 82                            | 72                                | 1,361                         | 3.2                     |
| Financial                              | 2,850                             | 66                            | 272                               | 3,188                         | 7.6                     |
| Healthcare                             | 2,477                             | 1,390                         | 531                               | 4,398                         | 10.4                    |
| Materials manufacturing and mining     | 2,239                             | 159                           | 156                               | 2,554                         | 6.1                     |
| Media                                  | 344                               | 11                            | 116                               | 471                           | 1.1                     |
| Oil and gas                            | 1,079                             | 52                            | 48                                | 1,179                         | 2.8                     |
| Public exposure                        | 1,290                             | 187                           | 834                               | 2,311                         | 5.5                     |
| Technology                             | 292                               | 5                             | 37                                | 334                           | .8                      |
| Transportation                         | 851                               | 102                           | 857                               | 1,810                         | 4.3                     |
| Utilities                              | 2,011                             | 6                             | 236                               | 2,253                         | 5.3                     |
| Other                                  | 748                               | 5                             | 7                                 | 760                           | 1.8                     |
| <b>Total</b>                           | <b>\$ 28,783</b>                  | <b>\$ 9,304</b>               | <b>\$ 4,064</b>                   | <b>\$ 42,151</b>              | <b>100.0%</b>           |

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**Commercial, financial and agricultural.** Our commercial, financial and agricultural loans, also referred to as commercial and industrial, represented 53% of our total loan portfolio at March 31, 2016, 52% at December 31, 2015, and 50% at March 31, 2015, and is the largest component of our total loans. These loans are originated by both Key Corporate Bank and Key Community Bank and consist of fixed and variable rate loans to our large, middle market, and small business clients.

Commercial, financial and agricultural loans increased \$3.2 billion, or 11.1%, from the same period last year, with Key Corporate Bank increasing \$3.2 billion, Key Community Bank up \$390 million, and Other Segments decreasing \$360 million. We have experienced growth in new high credit quality loan commitments and utilization with clients in our middle market segment and Institutional and Capital Markets business. Our two largest industry classifications commercial real estate and financial increased by 20.5% and 9.8%, respectively, when compared to one year ago. The commercial real estate and financial industries represented approximately 12% and 10%, respectively, of the total commercial, financial and agricultural loan portfolio at March 31, 2016, and approximately 11% and 10%, respectively, at March 31, 2015. In addition, utilities and healthcare, which each represented approximately 9% of the commercial, financial and agricultural loan portfolio at March 31, 2016, increased 39% and 19%, respectively, from one year ago. Utilities were higher due to alternative energy project financings, which predominantly rely directly or indirectly on the creditworthiness of public utilities. Healthcare grew due to a focus on more institutional-scale sponsor/owners of skilled nursing and assisted living facilities.

Our oil and gas loan portfolio focuses on lending to middle market companies and represents approximately 2% of total loans outstanding at March 31, 2016. Our oil and gas portfolio represented \$1.2 billion of outstanding commercial, financial and agricultural loans at March 31, 2016. In addition, the commercial real estate and commercial lease financing loan portfolios also include \$55 million and \$63 million, respectively, of outstanding oil and gas loans at March 31, 2016. We have nearly 15 years of experience in energy lending with over 20 specialists dedicated to this sector, focusing on middle market companies, which is aligned with our relationship strategy.

The upstream segment, comprising oil and gas exploration and production, represents approximately 57% of our exposure, is primarily secured by oil and gas reserves, subject to a borrowing base, and regularly stress-tested. The midstream segment, comprising mostly distribution companies, has lower exposure to commodity risk. Oil field services exposure is minimal and concentrated in very few borrowers. This mix was essentially unchanged from the prior year. Our total commitments in the energy sector were approximately \$3.1 billion at March 31, 2016, slightly lower than the prior year.

**Commercial real estate loans.** Our commercial real estate lending business is conducted through two primary sources: our 12-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of commercial real estate located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 69% of our average year-to-date commercial real estate loans, compared to 67% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of commercial real estate.

Commercial real estate loans totaled \$9.2 billion at March 31, 2016, and \$9.3 billion at March 31, 2015, and represented 15% and 16% of our total loan portfolio at March 31, 2016, and March 31, 2015, respectively. These loans, which include both owner- and nonowner-occupied properties, represented 20% and 22% of our commercial loan portfolio at March 31, 2016, and March 31, 2015, respectively. We continue to de-risk the portfolio by changing our focus from developers to owners of completed and stabilized commercial real estate.

Figure 19 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 19, this loan portfolio is diversified by both property type and geographic location of the underlying collateral.

As presented in Figure 19, at March 31, 2016, our commercial real estate portfolio included mortgage loans of \$8.4 billion and construction loans of \$841 million, representing 14% and 1%, respectively, of our total loans. At March 31, 2016, nonowner-occupied loans represented 11% of our total loans and owner-occupied loans represented 4% of our total loans. The average size of mortgage loans originated during the first quarter of 2016 was \$9.3 million, and our largest mortgage loan at March 31, 2016, had a balance of \$109.5 million. At March 31, 2016, our average construction loan commitment was \$8 million, our largest construction loan commitment was \$52.5 million, and our largest construction loan amount outstanding was \$40.7 million.



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Also shown in Figure 19, 73% of our commercial real estate loans at March 31, 2016, were for nonowner-occupied properties compared to 72% at March 31, 2015. Approximately 11% of these loans were construction loans at March 31, 2016, compared to 15% at March 31, 2015. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn rental rates and occupancy, would adversely affect our portfolio of construction loans.

**Figure 19. Commercial Real Estate Loans**

| <i>dollars in millions</i>              | Geographic Region |               |                 |                 |                 |                 |               | National Total  | Percent of Total Construction | Commercial Mortgage |                 |
|---|-------------------|---------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|-------------------------------|---------------------|-----------------|
|   | West              | Southwest     | Central         | Midwest         | Southeast       | Northeast       | South         |                 |                               |                     |                 |
| <b>March 31, 2016</b>                   |                   |               |                 |                 |                 |                 |               |                 |                               |                     |                 |
| Nonowner-occupied:                      |                   |               |                 |                 |                 |                 |               |                 |                               |                     |                 |
| Retail properties                       | \$ 157            | \$ 59         | \$ 73           | \$ 143          | \$ 220          | \$ 84           | \$ 177        | \$ 913          | 9.9%                          | \$ 65               | \$ 848          |
| Multifamily properties                  | 362               | 188           | 538             | 576             | 988             | 140             | 228           | 3,020           | 32.8                          | 480                 | 2,540           |
| Health facilities                       | 261               |               | 161             | 120             | 481             | 244             | 16            | 1,283           | 13.9                          | 96                  | 1,187           |
| Office buildings                        | 103               | 7             | 170             | 98              | 102             | 53              | 3             | 536             | 5.8                           | 28                  | 508             |
| Warehouses                              | 113               | 8             | 46              | 96              | 52              | 77              | 167           | 559             | 6.1                           | 46                  | 513             |
| Manufacturing facilities                | 6                 |               | 2               | 12              | 16              | 20              | 13            | 69              | .8                            |                     | 69              |
| Hotels/Motels                           | 14                |               | 13              | 6               |                 | 6               |               | 39              | .4                            | 2                   | 37              |
| Residential properties                  | 1                 |               | 45              | 2               |                 | 7               |               | 55              | .6                            | 21                  | 34              |
| Land and development                    | 8                 |               |                 | 1               | 9               | 4               |               | 22              | .2                            | 15                  | 7               |
| Other                                   | 38                | 12            | 4               | 20              | 33              | 94              | 54            | 255             | 2.8                           | 10                  | 245             |
| <b>Total nonowner-occupied</b>          | <b>1,063</b>      | <b>274</b>    | <b>1,052</b>    | <b>1,074</b>    | <b>1,901</b>    | <b>729</b>      | <b>658</b>    | <b>6,751</b>    | <b>73.3</b>                   | <b>763</b>          | <b>5,988</b>    |
| <b>Owner-occupied</b>                   | <b>920</b>        | <b>3</b>      | <b>352</b>      | <b>603</b>      | <b>12</b>       | <b>564</b>      |               | <b>2,454</b>    | <b>26.7</b>                   | <b>78</b>           | <b>2,376</b>    |
| <b>Total</b>                            | <b>\$ 1,983</b>   | <b>\$ 277</b> | <b>\$ 1,404</b> | <b>\$ 1,677</b> | <b>\$ 1,913</b> | <b>\$ 1,293</b> | <b>\$ 658</b> | <b>\$ 9,205</b> | <b>100.0%</b>                 | <b>\$ 841</b>       | <b>\$ 8,364</b> |
| <b>December 31, 2015</b>                |                   |               |                 |                 |                 |                 |               |                 |                               |                     |                 |
| <b>Total</b>                            | <b>\$ 2,163</b>   | <b>\$ 277</b> | <b>\$ 1,309</b> | <b>\$ 1,671</b> | <b>\$ 1,721</b> | <b>\$ 1,282</b> | <b>\$ 589</b> | <b>\$ 9,012</b> |                               | <b>\$ 1,053</b>     | <b>\$ 7,959</b> |
| <b>March 31, 2015</b>                   |                   |               |                 |                 |                 |                 |               |                 |                               |                     |                 |
| <b>Total</b>                            | <b>\$ 2,534</b>   | <b>\$ 277</b> | <b>\$ 1,359</b> | <b>\$ 1,638</b> | <b>\$ 1,411</b> | <b>\$ 1,365</b> | <b>\$ 720</b> | <b>\$ 9,304</b> |                               | <b>\$ 1,142</b>     | <b>\$ 8,162</b> |
| <b>March 31, 2016</b>                   |                   |               |                 |                 |                 |                 |               |                 |                               |                     |                 |
| Nonowner-occupied:                      |                   |               |                 |                 |                 |                 |               |                 |                               |                     |                 |
| Nonperforming loans                     |                   |               | \$ 7            | \$ 5            |                 | \$ 2            |               | \$ 14           | N/M                           | \$ 7                | \$ 7            |
| Accruing loans past due 90 days or more |                   |               | 2               | 5               |                 | 1               |               | 8               | N/M                           |                     | 8               |

|  |    |    |   |    |     |   |   |
|--|----|----|---|----|-----|---|---|
| Accruing loans past<br>due 30 through 89<br>days | \$ | 10 | 1 | 11 | N/M | 9 | 2 |
|--|----|----|---|----|-----|---|---|

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

During the first three months of 2016, nonperforming loans related to nonowner-occupied properties decreased by \$2 million from December 31, 2015, to \$14 million at March 31, 2016, and decreased by \$3 million when compared to March 31, 2015. Our nonowner-occupied commercial real estate portfolio has increased by 1.3%, or approximately \$84 million, since March 31, 2015, as many of our clients have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

**Commercial lease financing.** We conduct commercial lease financing arrangements through our KEF line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 9% of commercial loans at March 31, 2016, and 10% at March 31, 2015.

#### Commercial loan modification and restructuring

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

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

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

If loan terms are extended at less than normal market rates for similar lending arrangements, our Asset Recovery Group is consulted to help determine if any concession granted would result in designation as a TDR. Transfer to our Asset Recovery Group is considered for any commercial loan determined to be a TDR. During the first three months of 2016, we had \$7 million of new restructured commercial loans compared to no new restructured commercial loans during the first three months of 2015.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 4 ( Asset Quality ).

**Figure 20. Commercial TDRs by Accrual Status**

| <i>in millions</i>                       | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 |
|--|-------------------|----------------------|-----------------------|------------------|-------------------|
| <b>Commercial TDRs by Accrual Status</b> |                   |                      |                       |                  |                   |
| Nonaccruing                              | \$ 50             | \$ 52                | \$ 57                 | \$ 66            | \$ 35             |
| Accruing                                 | 2                 | 2                    | 4                     | 4                | 4                 |
| Total Commercial TDRs                    | \$ 52             | \$ 54                | \$ 61                 | \$ 70            | \$ 39             |

We often use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. Since the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This note structure typically will include a debt coverage ratio of 1.2 or better of cash flow to monthly payments of market interest, and principal amortization of generally not more than 25 years. These metrics are adjusted from time to time based upon changes in long-term markets and take-out underwriting standards of our various lines of business. Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower's payment performance improves, these restructured notes typically also allow for an upgraded internal quality risk rating classification.

The B note typically is a structurally subordinate note that may or may not require any debt service until the primary payment source stabilizes and generates excess cash flow. This excess cash flow customarily is captured for application to either the A note or B note dependent upon the terms of the restructure. We evaluate the B note when we consider returning the A note to accrual status. In many cases, the B note is charged off at the same time the A

note is returned to accrual status in accordance with our interpretation of accounting and regulatory guidance applicable to TDRs. Alternatively, both A and B notes may be simultaneously returned to accrual if credit metrics are supportive.

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

All loans processed as TDRs, including A notes and any non-charged-off B notes, are reported as TDRs during the calendar year in which the restructure took place. At March 31, 2016, we had \$49 million and \$3 million of A note and B note commercial TDRs, respectively.

Additional information regarding TDRs is provided in Note 4 ( Asset Quality ).

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

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

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

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

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

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

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

Mortgage and construction loans with a loan-to-value ratio greater than 1.0 are accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support. As of March 31, 2016, we did not have any mortgage and construction loans that had a loan-to-value ratio greater than 1.0.

## Consumer loan portfolio

Consumer loans outstanding decreased by \$479 million, or 3%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 98% of this portfolio at March 31, 2016, was originated from our Key Community Bank within our 12-state footprint. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans in Key Community Bank decreased by \$316 million, or 3.1%, over the past twelve months.

As shown in Figure 16, we held the first lien position for approximately 61% of the Key Community Bank home equity portfolio at March 31, 2016, and 60% at March 31, 2015. For consumer loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan-to-value 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 122 of our 2015 Form 10-K.

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Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. At March 31, 2016, 39% of our home equity portfolio was secured by second lien mortgages. On at least a quarterly basis, we continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate.

Figure 21 summarizes our home equity loan portfolio at the end of each of the last five quarters, as well as certain asset quality statistics and yields on the portfolio as a whole.

**Figure 21. Home Equity Loans**

| <i>dollars in millions</i>          | 2016      |           | 2015      |           |           |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|
|                                     | First     | Fourth    | Third     | Second    | First     |
| Home Equity Loans                   | \$ 10,149 | \$ 10,335 | \$ 10,504 | \$ 10,532 | \$ 10,523 |
| Nonperforming loans at period end   | \$ 191    | \$ 190    | \$ 181    | \$ 184    | \$ 191    |
| Net loan charge-offs for the period | 7         | 5         | 3         | 8         | 5         |
| Yield for the period                | 4.06%     | 3.97%     | 3.96%     | 3.98%     | 3.99%     |
| <u>Loans held for sale</u>          |           |           |           |           |           |

As shown in Note 3 ( Loans and Loans Held for Sale ), our loans held for sale increased to \$684 million at March 31, 2016, from \$639 million at December 31, 2015, and decreased from \$1.6 billion at March 31, 2015.

At March 31, 2016, loans held for sale included \$103 million of commercial, financial and agricultural loans, which decreased \$80 million from March 31, 2015, \$562 million of commercial mortgage loans, which decreased \$846 million from March 31, 2015, \$19 million of residential mortgage loans, which decreased \$25 million from March 31, 2015, and no commercial lease financing loans, which decreased \$14 million from March 31, 2015.

**Loan sales**

As shown in Figure 22, during the first three months of 2016, we sold \$925 million of commercial real estate loans, \$89 million of residential real estate loans, \$88 million of commercial lease financing loans, and \$46 million of commercial loans. Most of these sales came from the held-for-sale portfolio; however, \$40 million of these loan sales related to the held-to-maturity portfolio.

Loan sales classified as held for sale generated net gains of \$2 million in the first three months of 2016 and are included in investment banking and debt placement fees and other income on the income statement.

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.



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Figure 22 summarizes our loan sales for the first three months of 2016 and all of 2015.

**Figure 22. Loans Sold (Including Loans Held for Sale)**

| <i>in millions</i> | Commercial | Commercial Real Estate | Commercial Lease Financing | Residential Real Estate | Total    |
|--------------------|------------|------------------------|----------------------------|-------------------------|----------|
| <b>2016</b>        |            |                        |                            |                         |          |
| First quarter      | \$ 46      | \$ 925                 | \$ 88                      | \$ 89                   | \$ 1,148 |
| Total              | \$ 46      | \$ 925                 | \$ 88                      | \$ 89                   | \$ 1,148 |
| <b>2015</b>        |            |                        |                            |                         |          |
| Fourth quarter     | \$ 86      | \$ 1,570               | \$ 204                     | \$ 104                  | \$ 1,964 |
| Third quarter      | 150        | 1,246                  | 100                        | 142                     | 1,638    |
| Second quarter     | 41         | 2,210                  | 48                         | 188                     | 2,487    |
| First quarter      | 58         | 1,010                  | 63                         | 120                     | 1,251    |
| Total              | \$ 335     | \$ 6,036               | \$ 415                     | \$ 554                  | \$ 7,340 |

Figure 23 shows loans that are either administered or serviced by us, but not recorded on the balance sheet, and includes loans that were sold.

**Figure 23. Loans Administered or Serviced**

| <i>in millions</i>           | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 |
|------------------------------|----------------|-------------------|--------------------|---------------|----------------|
| Commercial real estate loans | \$ 214,756     | \$ 211,274        | \$ 206,893         | \$ 203,315    | \$ 201,397     |
| Education loans              | 1,280          | 1,339             | 1,398              | 1,459         | 1,521          |
| Commercial lease financing   | 891            | 932               | 779                | 709           | 701            |
| Commercial loans             | 347            | 335               | 340                | 337           | 347            |
| Total                        | \$ 217,274     | \$ 213,880        | \$ 209,410         | \$ 205,820    | \$ 203,966     |

In the event of default by a borrower, we are subject to recourse with respect to approximately \$1.8 billion of the \$217 billion of loans administered or serviced at March 31, 2016. 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 of commercial real estate loans.

## Securities

Our securities portfolio totaled \$19.3 billion at March 31, 2016, compared to \$19.1 billion at December 31, 2015, and \$18.1 billion at March 31, 2015. Available-for-sale securities were \$14.3 billion at March 31, 2016, compared to \$14.2 billion at December 31, 2015, and \$13.1 billion at March 31, 2015. Held-to-maturity securities were \$5 billion at March 31, 2016, compared to \$4.9 billion at December 31, 2015, and \$5 billion at March 31, 2015.

As shown in Figure 24, 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 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 ).

Table of Contents**Figure 24. Mortgage-Backed Securities by Issuer**

| <i>in millions</i>   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|----------------------|---------------------------|------------------------------|---------------------------|
| FHLMC                | \$ 4,189                  | \$ 4,349                     | \$ 5,352                  |
| FNMA                 | 5,049                     | 4,511                        | 4,761                     |
| GNMA                 | 10,041                    | 10,152                       | 7,935                     |
| Total <sup>(a)</sup> | \$ 19,279                 | \$ 19,012                    | \$ 18,048                 |

(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. At March 31, 2016, we had \$14.3 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to \$14.2 billion at December 31, 2015, and \$13.1 billion at March 31, 2015.

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

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

Throughout 2015 and the first quarter of 2016, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times during this time period served to provide the liquidity necessary to address our funding requirements. These funding requirements included ongoing loan growth and occasional debt maturities. At other times, we may make additional investments that go beyond the replacement of maturities or mortgage security cash flows as our liquidity position and/or interest rate risk management strategies may require. Lastly, our focus on investing in high quality liquid assets, including GNMA-related securities, is related to liquidity management strategies to satisfy regulatory requirements.

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Figure 25 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.

**Figure 25. Securities Available for Sale**

| <i>dollars in millions</i>               | States and<br>Political<br>Subdivisions | Collateralized<br>Mortgage<br>Obligations <sup>(a)</sup> | Other<br>Mortgage-<br>Backed<br>Securities <sup>(a)</sup> | Other<br>Securities <sup>(b)</sup> | Total                | Weighted-<br>Average<br>Yield<br><sup>(c)</sup> |
|--|---|--|---|------------------------------------|----------------------|---|
| <b>March 31, 2016</b>                    |   |  |   |                                    |                      |   |
| Remaining maturity:                      |   |  |   |                                    |                      |   |
| One year or less                         | \$ 2                                    | \$ 281   | \$ 2  |                                    | \$ 285               | 2.98%   |
| After one through five<br>years          | 11                                      | 11,881   | 1,445   | \$ 13                              | 13,350               | 2.11  |
| After five through ten<br>years          |   |  | 660   | 7                                  | 667                  | 2.15  |
| After ten years                          |   |  | 2   |                                    | 2                    | 5.45  |
| Fair value                               | \$ 13                                   | \$ 12,162  | \$ 2,109  | \$ 20                              | \$ 14,304            |   |
| Amortized cost                           | 12                                      | 12,071   | 2,087   | 21                                 | 14,191               | 2.13%   |
| Weighted-average yield<br><sup>(c)</sup> | 6.21%                                   | 2.11%  | 2.25%   |                                    | 2.13% <sup>(d)</sup> |   |
| Weighted-average<br>maturity             | 2.8 years                               | 3.6 years  | 4.4 years   | 4.2 years                          | 3.7 years            |   |
| <b>December 31, 2015</b>                 |   |  |   |                                    |                      |   |
| Fair value                               | \$ 14                                   | \$ 11,995  | \$ 2,189  | \$ 20                              | \$ 14,218            |   |
| Amortized cost                           | 14                                      | 12,082   | 2,193   | 21                                 | 14,310               | 2.14%   |
| <b>March 31, 2015</b>                    |   |  |   |                                    |                      |   |
| Fair value                               | \$ 22                                   | \$ 11,163  | \$ 1,902  | \$ 33                              | \$ 13,120            |   |
| Amortized cost                           | 21                                      | 11,116   | 1,870   | 30                                 | 13,037               | 2.14%   |

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

(b) Includes primarily marketable equity securities.

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

(d) Excludes \$20 million of securities at March 31, 2016, that have no stated yield.

**Held-to-maturity securities**

Federal Agency CMOs and mortgage-backed securities constitute essentially all of our held-to-maturity securities. The remaining balance comprises foreign bonds and capital securities. Figure 26 shows the composition, yields, and remaining maturities of these securities.

Figure 26. Held-to-Maturity Securities

| <i>dollars in millions</i>   | Collateralized<br>Mortgage<br>Obligations | Other<br>Mortgage-backed<br>Securities | Other<br>Securities  | Total                | Weighted-<br>Average<br>Yield <sup>(a)</sup> |
|------------------------------|---|--|----------------------|----------------------|--|
| <b>March 31, 2016</b>        |   |  |                      |                      |  |
| Remaining maturity:          |   |  |                      |                      |  |
| One year or less             | \$ 29                                     |  | \$ 9                 | \$ 38                | 2.18%  |
| After one through five years | 4,209                                     |  | 13                   | 4,222                | 1.91   |
| After five through ten years |   | \$ 591                                 |                      | 591                  | 2.70   |
| After ten years              |   | 152                                    |                      | 152                  | 2.84   |
| Amortized cost               | \$ 4,238                                  | \$ 743                                 | \$ 22                | \$ 5,003             | 2.04%  |
| Fair value                   | 4,254                                     | 755                                    | 22                   | 5,031                |  |
| Weighted-average yield       | 1.92%                                     | 2.73%                                  | 2.54% <sup>(b)</sup> | 2.04% <sup>(b)</sup> |  |
| Weighted-average maturity    | 3.2 years                                 | 8.2 years                              | 1.9 years            | 3.9 years            |  |
| <b>December 31, 2015</b>     |   |  |                      |                      |  |
| Amortized cost               | \$ 4,174                                  | \$ 703                                 | \$ 20                | \$ 4,897             | 2.01%  |
| Fair value                   | 4,129                                     | 699                                    | 20                   | 4,848                |  |
| <b>March 31, 2015</b>        |   |  |                      |                      |  |
| Amortized cost               | \$ 4,749                                  | \$ 234                                 | \$ 22                | \$ 5,005             | 1.92%  |
| Fair value                   | 4,745                                     | 236                                    | 22                   | 5,003                |  |

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

(b) Excludes \$5 million of securities at March 31, 2016, that have no stated yield.

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Principal investments investments in equity and debt instruments made by our Principal Investing unit represented 45%, 46%, and 51% of other investments at March 31, 2016, December 31, 2015, and March 31, 2015, respectively. They include direct investments (investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value. The fair value of the direct investments was \$61 million at March 31, 2016, \$69 million at December 31, 2015, and \$74 million at March 31, 2015, while the fair value of the indirect investments was \$229 million at March 31, 2016, \$235 million at December 31, 2015, and \$301 million at March 31, 2015. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect principal investments. The Federal Reserve extended the conformance period to July 21, 2016, for all banking entities with respect to covered funds. The Federal Reserve also indicated its intent to exercise the authority granted by Section 13 of the Bank Holding Company Act to grant the final one-year extension until July 21, 2017. If this authority is not exercised by the Federal Reserve, Key is permitted to file for an additional extension of up to five years for illiquid funds, to retain the indirect investments for a longer period of time. We plan to apply for the extension and hold the investments. As of March 31, 2016, one of our indirect investments was identified for sale. Additional information about this investment is provided in the Principal investments section of Note 5 ( Fair Value Measurements ). For more information about the Volcker Rule, see the discussion in Item 1 under the heading Other Regulatory Developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation beginning on page 17 of our 2015 Form 10-K.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real-estate-related investments and an indirect ownership interest in a partnership, that are carried at fair value, as well as other types of investments that generally are carried at cost. The real-estate-related investments were valued at \$8 million at March 31, 2016 and December 31, 2015, and \$9 million at March 31, 2015. The indirect investment in a partnership was valued at \$4 million at March 31, 2015. Under the requirements of the Volcker Rule, we were required to dispose of this investment, which was redeemed prior to December 31, 2015. Additional information pertaining to the equity investment is included in the Assets and Liabilities Measured at Fair Value on a Recurring Basis section of Note 5.

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer's past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer's payment history, our knowledge of the industry, third-party data, and other relevant factors. During the first three months of 2016, net losses from our principal investing activities (including results attributable to noncontrolling interests) totaled less than \$1 million, which includes \$17 million of net unrealized losses. These net losses are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 5.

**Deposits and other sources of funds**

Domestic deposits are our primary source of funding. The composition of our average deposits is shown in Figure 8 in the section entitled Net interest income. During the first quarter of 2016, average domestic deposits were \$71.6 billion and represented 84% of the funds we used to support loans and other earning assets, compared to \$68.8 billion and 86% during the first quarter of 2015. Interest-bearing deposits increased \$3.4 billion driven by a \$2.8 billion increase in NOW and money market deposit accounts and a \$727 million increase in certificates of deposit and other time deposits. The increase in NOW and money market deposit accounts reflects growth in the commercial mortgage

servicing business and inflows from commercial and consumer clients. These increases were partially offset by a \$689 million decline in noninterest-bearing deposits.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged \$1 billion during the first quarter of 2016, compared to \$1.8 billion during the first quarter of 2015. The change from the first quarter of 2015 was caused by declines of \$529 million in foreign office deposits and \$283 million in federal funds purchased and securities sold under repurchase agreements, partially offset by an increase of \$85 million in bank notes and other short-term borrowings.

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**Capital**

At March 31, 2016, our shareholders' equity was \$11.1 billion, up \$320 million from December 31, 2015. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity (Unaudited).

**CCAR and capital actions**

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

**Dividends**

Consistent with the 2015 capital plan, we made a dividend payment of \$.075 per share, or \$63 million, on our common shares during the first quarter of 2016.

We also made quarterly dividend payments of \$1.9375 per share, or \$5.6 million, on our Series A Preferred Stock during the first quarter of 2016.

As previously reported and consistent with our 2015 capital plan, an additional planned increase in our quarterly common share dividend, up to \$.085 per share, will be considered by the Board in May of 2016 for the fifth quarter of the 2015 capital plan. Other changes to future dividends may be evaluated by the Board based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital planning process and CCAR is included under the heading "Regulatory capital and liquidity" in the "Supervision and Regulation" section beginning on page 10 of our 2015 Form 10-K.

**Common shares outstanding**

Our common shares are traded on the NYSE under the symbol KEY with 26,814 holders of record at March 31, 2016. Our book value per common share was \$12.79 based on 842.3 million shares outstanding at March 31, 2016, compared to \$12.51 per common share based on 835.8 million shares outstanding at December 31, 2015, and \$12.12 per common share based on 850.9 million shares outstanding at March 31, 2015. At March 31, 2016, our tangible book value per common share was \$11.52, compared to \$11.22 per common share at December 31, 2015, and \$10.84 per common share at March 31, 2015.

Figure 27 shows activities that caused the change in outstanding common shares over the past five quarters.

**Figure 27. Changes in Common Shares Outstanding**



| <i>in thousands</i>                                     | <b>2016</b>    |         |         | <b>2015</b> |          |
|---|----------------|---------|---------|-------------|----------|
|   | <b>First</b>   | Fourth  | Third   | Second      | First    |
| <b>Shares outstanding at beginning of period</b>        | <b>835,751</b> | 835,285 | 843,608 | 850,920     | 859,403  |
| Common shares repurchased                               |                |         | (8,386) | (8,794)     | (14,087) |
| Shares reissued (returned) under employee benefit plans | <b>6,539</b>   | 466     | 63      | 1,482       | 5,571    |
| Series A Preferred Stock exchanged for common shares    |                |         |         |             | 33       |
| <b>Shares outstanding at end of period</b>              | <b>842,290</b> | 835,751 | 835,285 | 843,608     | 850,920  |

As shown above, common shares outstanding increased by 6.5 million shares during the first quarter of 2016 due to the net activity in our employee benefit plans.

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At March 31, 2016, we had 174.7 million treasury shares, compared to 181.2 million treasury shares at December 31, 2015, and 166 million treasury shares at March 31, 2015. 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.

**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, 2016. Our capital and liquidity levels are intended to position us to weather an adverse credit cycle while continuing to serve our clients' needs, as well as to meet the Regulatory Capital Rules described in the Supervision and regulation section of Item 2 of this report. Our shareholders' equity to assets ratio was 11.25% at March 31, 2016, compared to 11.30% at December 31, 2015, and 11.26% at March 31, 2015. Our tangible common equity to tangible assets ratio was 9.97% at March 31, 2016, compared to 9.98% at December 31, 2015, and 9.92% at March 31, 2015.

Federal banking regulators have promulgated minimum risk-based capital and leverage ratio requirements for BHCs like KeyCorp and their banking subsidiaries like KeyBank. As of January 1, 2016, Key and KeyBank (consolidated) were each required to maintain a minimum Tier 1 risk-based capital ratio of 6.0%, a total risk-based capital ratio of 8.0%, and a Tier 1 leverage ratio of 4.0%. At March 31, 2016, our Tier 1 risk-based capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio were 11.38%, 13.12%, and 10.73%, respectively, compared to 11.35%, 12.97%, and 10.72%, respectively, at December 31, 2015, and 11.04%, 12.79% and 10.91%, respectively, at March 31, 2015. In addition, as of January 1, 2016, Key and KeyBank (consolidated) were each required to maintain a minimum Common Equity Tier 1 capital ratio of 4.5%. At March 31, 2016, our Common Equity Tier 1 capital ratio was 11.07%.

The adoption of the Regulatory Capital Rules changes the regulatory capital standards that apply to BHCs by phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, which began January 1, 2015, for standardized approach banking organizations such as KeyCorp, resulted in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital starting in 2016. The new minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of Key at March 31, 2016, calculated on a fully phased-in basis, are set forth under the heading New minimum capital and leverage ratio requirements in the Supervision and regulation section in Item 2 of this report.

As previously indicated in the Supervision and Regulation section of Item 1 of our 2015 Form 10-K under the heading Revised prompt corrective action capital category ratios, the prompt corrective action capital category regulations do not apply to BHCs. If, however, these regulations did apply to BHCs, we believe KeyCorp would qualify for the well capitalized capital category at March 31, 2016. The threshold ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules are described in the Supervision and Regulation section of Item 1 of this report under the heading Revised prompt corrective action capital category ratios. Since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in the section Regulatory capital and liquidity in Supervision and Regulation under Item 1 of our 2015 Form 10-K.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. The capital modifications

mandated by the Regulatory Capital Rules, which became effective on January 1, 2015, for Key, require higher and better-quality capital and introduced a new capital measure, Common Equity Tier 1. Common Equity Tier 1 is not formally defined by GAAP and is considered to be a non-GAAP financial measure. Figure 7 in the Highlights of Our Performance section reconciles Key shareholders' equity, the GAAP performance measure, to Common Equity Tier 1, the corresponding non-GAAP measure. Our Common Equity Tier 1 ratio was 11.07% at March 31, 2016.

At March 31, 2016, for Key's consolidated operations, we had a federal net deferred tax asset of \$111 million and a state deferred tax asset of \$15 million, compared to a federal net deferred tax asset of \$105 million and a state deferred tax asset of \$14 million at March 31, 2015. We had a valuation allowance against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards of less than \$1 million at March 31, 2016, and March 31, 2015. Starting with the implementation of the Regulatory Capital Rules on January 1, 2015, deferred tax assets that arise from net operating loss and tax credit carryforwards are deductible from Common Equity Tier 1 on a phase-in basis. As of March 31, 2016, this balance was approximately \$1 million.

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Figure 28 represents the details of our regulatory capital position at March 31, 2016, December 31, 2015, and March 31, 2015, under the Regulatory Capital Rules.

**Figure 28. Capital Components and Risk-Weighted Assets (Regulatory Capital Rules)**

| <i>dollars in millions</i>   | <b>March 31,<br/>2016</b> | <b>December 31,<br/>2015</b> | <b>March 31,<br/>2015</b> |
|--|---------------------------|------------------------------|---------------------------|
| <b>COMMON EQUITY TIER 1</b>  |                           |                              |                           |
| Key shareholders equity (GAAP)   | \$ 11,066                 | \$ 10,746                    | \$ 10,603                 |
| Less: Series A Preferred Stock <sup>(a)</sup>  | 281                       | 281                          | 281                       |
| Common Equity Tier 1 capital before adjustments and deductions                                       | 10,785                    | 10,465                       | 10,322                    |
| Less: Goodwill, net of deferred taxes  | 1,033                     | 1,034                        | 1,036                     |
| Intangible assets, net of deferred taxes   | 35                        | 26                           | 36                        |
| Deferred tax assets  | 1                         | 1                            | 1                         |
| Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes                | 70                        | (58)                         | 52                        |
| Accumulated gains (losses) on cash flow hedges, net of deferred taxes                                | 46                        | (20)                         | (8)                       |
| Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes        | (365)                     | (365)                        | (364)                     |
| <b>Total Common Equity Tier 1 capital</b>  | <b>\$ 9,965</b>           | <b>\$ 9,847</b>              | <b>\$ 9,569</b>           |
| <b>TIER 1 CAPITAL</b>  |                           |                              |                           |
| Common Equity Tier 1   | \$ 9,965                  | \$ 9,847                     | \$ 9,569                  |
| Additional Tier 1 capital instruments and related surplus  | 281                       | 281                          | 281                       |
| Non-qualifying capital instruments subject to phase out  |                           | 85                           | 85                        |
| Less: Deductions   |                           | 1                            | 1                         |
| <b>Total Tier 1 capital</b>  | <b>10,246</b>             | <b>10,212</b>                | <b>9,934</b>              |
| <b>TIER 2 CAPITAL</b>  |                           |                              |                           |
| Tier 2 capital instruments and related surplus   | 649                       | 578                          | 713                       |
| Allowance for losses on loans and liability for losses on lending-related commitments <sup>(b)</sup> | 919                       | 881                          | 861                       |
| Net unrealized gains on available-for-sale preferred stock classified as an equity security          |                           |                              | 1                         |
| Less: Deductions   |                           |                              |                           |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Total Tier 2 capital                             | 1,568     | 1,459     | 1,575     |
| Total risk-based capital                         | \$ 11,814 | \$ 11,671 | \$ 11,509 |
| <b>RISK-WEIGHTED ASSETS</b>                      |           |           |           |
| Risk-weighted assets on balance sheet            | \$ 67,718 | \$ 67,390 | \$ 68,023 |
| Risk-weighted off-balance sheet exposure         | 21,719    | 21,983    | 21,205    |
| Market risk-equivalent assets                    | 577       | 607       | 739       |
| Gross risk-weighted assets                       | 90,014    | 89,980    | 89,967    |
| Less: Excess allowance for loan and lease losses |           |           |           |
| Net risk-weighted assets                         | \$ 90,014 | \$ 89,980 | \$ 89,967 |
| <b>AVERAGE QUARTERLY TOTAL ASSETS</b>            | \$ 95,465 | \$ 95,272 | \$ 91,838 |
| <b>CAPITAL RATIOS</b>                            |           |           |           |
| Tier 1 risk-based capital                        | 11.38     | 11.35     | 11.04%    |
| Total risk-based capital                         | 13.12     | 12.97     | 12.79     |
| Leverage <sup>(c)</sup>                          | 10.73     | 10.72     | 10.91     |
| Common Equity Tier 1                             | 11.07     | 10.94     | 10.64     |

- (a) Net of capital surplus.
- (b) The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the institution's standardized total risk-weighted assets (excluding its standardized market risk-weighted assets). The ALLL includes \$24 million, \$28 million, and \$25 million of allowance classified as discontinued assets on the balance sheet at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.
- (c) This ratio is Tier 1 capital divided by average quarterly total assets as defined by the Federal Reserve less: (i) goodwill, (ii) the disallowed intangible and deferred tax assets, and (iii) other deductions from assets for leverage capital purposes.

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### **Risk Management**

#### **Overview**

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

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

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

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

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

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

Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks, and discussing forward-looking assessments. Risk Governance Committees include

attendees from each of the Three Lines of Defense. The First Line of Defense is the Line of Business primarily responsible to accept, own, proactively identify, monitor, and manage risk. The Second Line of Defense comprises Risk Management representatives who provide independent, centralized oversight over all risk categories by aggregating, analyzing, and reporting risk information. Risk Review, our internal audit function, provides the Third Line of Defense in their role to provide independent assessment and testing of the effectiveness, appropriateness, and adherence to KeyCorp's risk management policies, practices, and controls.

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

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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. For example, the value of a fixed-rate bond will decline when market interest rates increase, while the cash flows associated with a variable rate loan will increase when interest rates increase. The holder of a financial instrument is exposed to market risk when either the cash flows or the value of the instrument is tied to such external factors.

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

**Trading market risk**

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

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

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



***Covered positions.*** We monitor the market risk of our covered positions, which includes all of our trading positions as well as all foreign exchange and commodity positions, regardless of whether the position is in a trading account. All positions in the trading account are recorded at fair value, and changes in fair value are reflected in our consolidated statements of income. Information regarding our fair value policies, procedures, and methodologies is provided in Note 1 ( Summary of Significant Accounting Policies ) under the heading Fair Value Measurements on page 124 of our 2015 Form 10-K and Note 5 ( Fair Value Measurements ) in this report. Instruments that are used to hedge nontrading activities, such as bank-issued debt and loan portfolios, equity positions that are not actively traded, and securities financing activities, do not meet the definition of a covered position. The MRM is responsible for identifying our portfolios as either covered or non-covered. The Covered Position Working Group develops the final list of covered positions, and a summary is provided to the Market Risk Committee.

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

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

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

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

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

We use a historical VaR model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions. Historical scenarios are customized for specific covered positions, and numerous risk factors are incorporated in the calculation. Additional consideration is given to the risk factors to estimate the exposures that contain optionality features, such as options and cancelable provisions. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level.

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

Actual losses for the total covered positions did not exceed aggregate daily VaR on any day during the quarters ended March 31, 2016, and March 31, 2015. The MRM backtests our VaR model on a daily basis to evaluate its predictive

power. The test compares VaR model results at the 99% confidence level to daily held profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR.

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

The aggregate VaR at the 99% confidence level for all covered positions was \$1 million at March 31, 2016, and \$1.1 million at March 31, 2015. The decrease in aggregate VaR was primarily due to the decreased exposure in our CMBS portfolio. Figure 30 summarizes our VaR at the 99% confidence level for significant portfolios of covered positions for the three months ended March 31, 2016, and March 31, 2015. During these periods, none of our significant portfolios daily trading VaR numbers exceeded their VaR limits or stress VaR limits.

Table of Contents**Figure 30. VaR for Significant Portfolios of Covered Positions**

| <i>in millions</i>      | 2016                         |       |       | 2015                         |       |       |           |
|-------------------------|------------------------------|-------|-------|------------------------------|-------|-------|-----------|
|                         | Three months ended March 31, |       |       | Three months ended March 31, |       |       |           |
|                         | High                         | Low   | Mean  | High                         | Low   | Mean  | March 31, |
| Trading account assets: |                              |       |       |                              |       |       |           |
| Fixed income            | \$ .9                        | \$ .4 | \$ .6 | \$ .7                        | \$ .7 | \$ .2 | \$ .6     |
| Derivatives:            |                              |       |       |                              |       |       |           |
| Interest rate           | \$ .1                        |       | \$ .1 | \$ .1                        |       | \$ .1 | \$ .1     |
| Credit                  | .5                           |       | .3    | .1                           | .4    | .3    | .3        |

Stressed VaR is calculated using our general VaR results at the 99% confidence level and applying certain assumptions. The aggregate stressed VaR for all covered positions was \$2.4 million at March 31, 2016, and \$3.2 million at March 31, 2015. Figure 31 summarizes our stressed VaR for significant portfolios of covered positions for the three months ended March 31, 2016, and March 31, 2015, as used for market risk capital charge calculation purposes.

**Figure 31. Stressed VaR for Significant Portfolios of Covered Positions**

| <i>in millions</i>      | 2016                         |       |        | 2015                         |        |       |           |
|-------------------------|------------------------------|-------|--------|------------------------------|--------|-------|-----------|
|                         | Three months ended March 31, |       |        | Three months ended March 31, |        |       |           |
|                         | High                         | Low   | Mean   | High                         | Low    | Mean  | March 31, |
| Trading account assets: |                              |       |        |                              |        |       |           |
| Fixed income            | \$ 1.8                       | \$ .8 | \$ 1.4 | \$ 1.4                       | \$ 2.2 | \$ .6 | \$ 1.8    |
| Derivatives:            |                              |       |        |                              |        |       |           |
| Interest rate           | \$ .2                        | \$ .1 | \$ .1  | \$ .2                        | \$ .3  | \$ .1 | \$ .2     |
| Credit                  | 2.6                          | .1    | 1.4    | .2                           | 1.2    | .8    | .9        |

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

Nontrading market risk

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

Interest rate risk positions are influenced by a number of factors including the balance sheet positioning that arises out of consumer preferences for loan and deposit products, economic conditions, the competitive environment within our

markets, changes in market interest rates that affect client activity, and our hedging, investing, funding, and capital positions. The primary components of interest rate risk exposure consist of reprice risk, basis risk, yield curve risk, and option risk.

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

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

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

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

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

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

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

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

Figure 32 presents the results of the simulation analysis at March 31, 2016, and March 31, 2015. At March 31, 2016, our simulated exposure to changes in interest rates was moderately asset sensitive, and net interest income would

benefit over time from either an increase in short-term or intermediate-term interest rates. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next 12 months would adversely affect net interest income over the same period by more than 4%. In December 2015, the Federal Reserve increased the range for the federal funds target rate, which led to an increased modeled exposure to declining interest rates. Subsequent to the Federal Reserve's action in December, we increased the magnitude of the declining rate scenario to 50 basis points, increasing our overall modeled exposure. The modeled exposure depends on the relationships of interest rates on our interest earning assets and interest bearing liabilities, notably on instruments that are expected to react to the short end of the yield curve. As shown in Figure 32, we are operating within these levels as of March 31, 2016.

Table of Contents**Figure 32. Simulated Change in Net Interest Income**

|  |               |               |
|--|---------------|---------------|
| <b>March 31, 2016</b>                            |               |               |
| Basis point change assumption (short-term rates) | <b>-50</b>    | <b>+200</b>   |
| Tolerance level                                  | <b>-4.00%</b> | <b>-4.00%</b> |
| Interest rate risk assessment                    | <b>-3.19%</b> | <b>2.23%</b>  |
| <b>March 31, 2015</b>                            |               |               |
| Basis point change assumption (short-term rates) | -25           | +200          |
| Tolerance level                                  | -4.00%        | -4.00%        |
| Interest rate risk assessment                    | -1.11%        | 3.34%         |

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicates that net interest income could increase or decrease from the base simulation results presented in Figure 32. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate increases and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. The unprecedented low level of interest rates increases the uncertainty of assumptions for deposit balance behavior and deposit repricing relationships to market interest rates. Recent balance growth in deposits has caused the uncertainty in assumptions to increase further. Our historical deposit repricing betas in the last rising rate cycle ranged between 50% and 60% for interest-bearing deposits, and we continue to make similar assumptions in our modeling. The sensitivity testing of these assumptions supports our confidence that actual results are likely to be within a 100 basis point range of modeled results.

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

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

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



historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate increase or decrease in interest rates. We are operating within these guidelines as of March 31, 2016.

***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 33 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a receive fixed/pay variable interest rate swap. The volume, maturity and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 7 ( Derivatives and Hedging Activities ).

Table of Contents**Figure 33. Portfolio Swaps by Interest Rate Risk Management Strategy**

| <i>dollars in millions</i>                        |                   | March 31, 2016     |                       |                     |                                     |                                 | March 31, 2015     |                       |
|---|-------------------|--------------------|-----------------------|---------------------|-------------------------------------|---------------------------------|--------------------|-----------------------|
|   |                   | Notional<br>Amount | Fair<br>Value         | Maturity<br>(Years) | Weighted-Average<br>Receive<br>Rate | Weighted-Average<br>Pay<br>Rate | Notional<br>Amount | Fair<br>Value         |
| Receive fixed/pay variable<br>A/LM <sup>(a)</sup> | conventional      | \$ 13,530          | \$ 115                | 2.4                 | 1.0%                                | .4%                             | \$ 10,475          | \$ 28                 |
| Receive fixed/pay variable<br>debt                | conventional      | 7,491              | 303                   | 3.4                 | 1.7                                 | .5                              | 6,054              | 250                   |
| Pay fixed/receive variable                        | conventional debt | 50                 | (10)                  | 12.3                | .6                                  | 3.6                             | 50                 | (8)                   |
| Total portfolio swaps                             |                   | \$ 21,071          | \$ 408 <sup>(b)</sup> | 2.8                 | 1.3%                                | .5%                             | \$ 16,579          | \$ 270 <sup>(b)</sup> |

(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 \$45 million and \$36 million at March 31, 2016, and March 31, 2015, respectively.

**Liquidity risk management**

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

Governance structure

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

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

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

Factors affecting liquidity

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

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

Our credit ratings at March 31, 2016, are shown in Figure 34. We believe these credit ratings, under normal conditions in the capital markets, will enable KeyCorp or KeyBank to issue fixed income securities to investors.

**Table of Contents****Figure 34. Credit Ratings**

|  | Short-Term Borrowings | Long-Term Deposits | Senior Long-Term Debt | Subordinated Long-Term Debt | Capital Securities | Series A Preferred Stock |
|--|-----------------------|--------------------|-----------------------|-----------------------------|--------------------|--------------------------|
| <b>March 31, 2016</b>                      |                       |                    |                       |                             |                    |                          |
| <b><u>KEYCORP (THE PARENT COMPANY)</u></b> |                       |                    |                       |                             |                    |                          |
| Standard & Poor's                          | A-2                   | N/A                | BBB+                  | BBB                         | BB+                | BB+                      |
| Moody's                                    | P-2                   | N/A                | Baa1                  | Baa1                        | Baa2               | Baa3                     |
| Fitch                                      | F1                    | N/A                | A-                    | BBB+                        | BB+                | BB                       |
| DBRS                                       | R-2(high)             | N/A                | BBB(high)             | BBB                         | BBB                | N/A                      |
| <b><u>KEYBANK</u></b>                      |                       |                    |                       |                             |                    |                          |
| Standard & Poor's                          | A-2                   | N/A                | A-                    | BBB+                        | N/A                | N/A                      |
| Moody's                                    | P-1                   | Aa3                | A3                    | Baa1                        | N/A                | N/A                      |
| Fitch                                      | F1                    | A                  | A-                    | BBB+                        | N/A                | N/A                      |
| DBRS                                       | R-1(low)              | A(low)             | A(low)                | BBB(high)                   | N/A                | N/A                      |
| <b><u>Managing liquidity risk</u></b>      |                       |                    |                       |                             |                    |                          |

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

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

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for managing liquidity through a problem period. As part of the plan, we maintain on-balance sheet liquid reserves referred to as our liquid asset portfolio, which consists of high quality liquid assets. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at March 31, 2016, totaled \$18.8 billion, consisting of \$13.4 billion of unpledged securities, \$555 million of securities available for secured funding at the FHLB, and \$4.9 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of March 31, 2016, our

unused borrowing capacity secured by loan collateral was \$14.6 billion at the Federal Reserve Bank of Cleveland and \$3 billion at the FHLB. During the first quarter of 2016, Key's outstanding FHLB advances were reduced by \$23 million due to repayments.

Final U.S. liquidity coverage ratio

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

Additional information about the Liquidity Coverage Ratio is included in the "Supervision and regulation" section under the heading "Liquidity coverage ratio" in Item 2 of this report.

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### Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, we may use wholesale funds to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key's client-based relationship strategy provides for a strong core deposit base that, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan-to-deposit ratio as a metric to monitor these strategies. Our target loan-to-deposit ratio is 90-100% (at March 31, 2016, our loan-to-deposit ratio was 86%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by total deposits.

### Sources of liquidity

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

### Liquidity programs

We have several liquidity programs, which are described in Note 18 ( Long-Term Debt ) beginning on page 208 of our 2015 Form 10-K, that are designed to enable KeyCorp and KeyBank to raise funds in the public and private debt markets. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. These liquidity programs are reviewed from time to time by the Board and are renewed and replaced as necessary. There are no restrictive financial covenants in any of these programs.

On March 8, 2016, KeyBank issued \$1 billion of 2.35% Senior Bank Notes due March 8, 2019, 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.

We use a parent cash coverage months metric as the primary measure to assess parent company liquidity. The parent cash coverage months metric measures the months into the future where projected obligations can be met with the current amount of liquidity. We generally issue term debt to supplement dividends from KeyBank to manage our liquidity position at or above our targeted levels. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over at least the next 24 months. At March 31, 2016, KeyCorp held \$2.8 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our risk tolerance.

Typically, KeyCorp meets its liquidity requirements through regular dividends from KeyBank, supplemented with term debt. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank's dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During the first quarter of 2016, KeyBank paid \$250 million in dividends to KeyCorp. As of

March 31, 2016, KeyBank had regulatory capacity to pay \$513 million 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 increased as a result of an increase in unpledged securities and net customer loan and deposit flows. The liquid asset portfolio continues to exceed the amount that we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer-term solution.

From time to time, KeyCorp or KeyBank may seek to retire, repurchase, or exchange outstanding debt, capital securities, preferred shares, or common shares through cash purchase, privately negotiated transactions or other means. Additional

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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 and in Part II, Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities on page 32 of our 2015 Form 10-K. Such transactions depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, regulatory requirements, and other factors. The amounts involved may be material, individually or collectively.

We generate cash flows from operations and from investing and financing activities. We have approximately \$200 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of March 31, 2016. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately \$3 million in taxes to be paid. We have included the appropriate amount as a deferred tax liability at March 31, 2016.

The Consolidated Statements of Cash Flows (Unaudited) summarize our sources and uses of cash by type of activity for the three-month periods ended March 31, 2016, and March 31, 2015.

### **Credit risk management**

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

#### **Credit policy, approval, and evaluation**

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

Our credit risk management team and individuals within our lines of business to whom credit risk management has delegated 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.

Most extensions of credit are subject to loan grading or scoring. Loan grades are assigned to commercial loans at the time of origination, verified by the credit risk management team and periodically reevaluated 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 loss rates on the credit facility. Default probability is determined based on, among other factors, the financial strength of the borrower, an assessment of the borrower's management, the borrower's competitive position within its industry sector, and our view of industry risk within the context of the general economic outlook. Types of exposure, transaction structure and collateral, including credit risk mitigants, affect the expected loss assessment.

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



We maintain an active concentration management program to mitigate concentration risk in our credit portfolios. For aggregate credit relationships, we employ a sliding scale of exposure, known as hold limits, which is dictated by the type of loan and strength of the borrower. Our legal lending limit is approximately \$1.6 billion for any aggregate credit relationship. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of March 31, 2016, we had five client relationships with loan commitments net of credit default swaps of more than \$200 million. The average amount outstanding on these five individual net obligor commitments was \$74 million at March 31, 2016. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate portfolio credit risk. We utilize credit default swaps on a limited basis to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At March 31, 2016, we used credit default swaps with a notional amount of \$297 million to manage the credit risk associated with specific commercial lending obligations. We may also sell credit derivatives primarily single name credit default swaps to offset our purchased credit default swap position prior to maturity. At March 31, 2016, we did not have any sold credit default swaps outstanding.

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

**Allowance for loan and lease losses**

At March 31, 2016, the ALLL was \$826 million, or 1.37% of period-end loans, compared to \$796 million, or 1.33%, at December 31, 2015, or \$794 million, or 1.37%, at March 31, 2015. The allowance includes \$54 million that was specifically allocated for impaired loans of \$607 million at March 31, 2016, compared to \$35 million that was specifically allocated for impaired loans of \$308 million at December 31, 2015, and \$49 million that was specifically allocated for impaired loans of \$338 million at March 31, 2015. For more information about impaired loans, see Note 4 ( Asset Quality ). At March 31, 2016, the ALLL was 122.2% of nonperforming loans, compared to 205.7% at December 31, 2015, and 181.7% at March 31, 2015.

Selected asset quality statistics for each of the past five quarters are presented in Figure 35. The factors that drive these statistics are discussed in the remainder of this section.

**Figure 35. Selected Asset Quality Statistics from Continuing Operations**

| <i>dollars in millions</i>  | 2016   |        | 2015   |        |        |
|---|--------|--------|--------|--------|--------|
|   | First  | Fourth | Third  | Second | First  |
| Net loan charge-offs  | \$ 46  | \$ 37  | \$ 41  | \$ 36  | \$ 28  |
| Net loan charge-offs to average total loans   | .31%   | .25%   | .27%   | .25%   | .20%   |
| Allowance for loan and lease losses   | \$ 826 | \$ 796 | \$ 790 | \$ 796 | \$ 794 |
| Allowance for credit losses <sup>(a)</sup>  | 895    | 852    | 844    | 841    | 835    |
| Allowance for loan and lease losses to period-end loans                                     | 1.37%  | 1.33%  | 1.31%  | 1.37%  | 1.37%  |
| Allowance for credit losses to period-end loans   | 1.48   | 1.42   | 1.40   | 1.44   | 1.44   |
| Allowance for loan and lease losses to nonperforming loans                                  | 122.2  | 205.7  | 197.5  | 190.0  | 181.7  |
| Allowance for credit losses to nonperforming loans  | 132.4  | 220.2  | 211.0  | 200.7  | 191.1  |
| Nonperforming loans at period end <sup>(b)</sup>  | \$ 676 | \$ 387 | \$ 400 | \$ 419 | \$ 437 |
| Nonperforming assets at period end  | 692    | 403    | 417    | 440    | 457    |
| Nonperforming loans to period-end portfolio loans   | 1.12%  | .65%   | .67%   | .72%   | .75%   |
| Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets | 1.14   | .67    | .69    | .75    | .79    |

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

(b) Loan balances exclude \$11 million, \$11 million, \$12 million, \$12 million, and \$12 million of PCI loans at March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, 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 122 of our 2015 Form 10-K. Briefly, our allowance applies expected loss rates to existing loans with similar risk characteristics. We exercise judgment to assess any adjustment to the expected loss rates for the

impact of factors such as changes in economic conditions, lending policies including underwriting standards, and the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of \$2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at March 31, 2016, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

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As shown in Figure 36, our ALLL from continuing operations increased by \$32 million, or 4%, since March 31, 2015. Our allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors, such as changes in economic conditions, underwriting standards, and concentrations of credit. Our commercial ALLL increased by \$42 million, or 6.6%, since March 31, 2015, primarily because of loan growth and increased incurred loss estimates. The increase in these incurred loss estimates during 2015 and into 2016 was primarily due to the continued decline in oil and gas prices since 2014. Partially offsetting this increase was a decrease in our consumer ALLL of \$10 million, or 6.3%, since March 31, 2015. Our consumer ALLL decrease was primarily due to continued improvement in credit metrics, such as delinquency, average credit bureau score, and loan to value, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics since 2014 was primarily due to continued improved credit quality and benefits of relatively stable economic conditions. Our liability for credit losses on lending-related commitments increased by \$28 million to \$69 million at March 31, 2016. When combined with our ALLL, our total allowance for credit losses represented 1.48% of period-end loans at March 31, 2016, compared to 1.42% at December 31, 2015, and 1.44% at March 31, 2015.

**Figure 36. Allocation of the Allowance for Loan and Lease Losses**

| <i>dollars in millions</i>             | March 31, 2016 |                      |                  | December 31, 2015 |                      |                  | March 31, 2015 |                      |                  |
|--|----------------|----------------------|------------------|-------------------|----------------------|------------------|----------------|----------------------|------------------|
|  | Amount         | Percent of Allowance | Percent of Loans | Amount            | Percent of Allowance | Percent of Loans | Amount         | Percent of Allowance | Percent of Loans |
| Commercial, financial and agricultural | \$ 477         | 57.8%                | 52.9%            | \$ 450            | 56.5%                | 52.2%            | \$ 405         | 51.0%                | 49.6%            |
| Commercial real estate:                |                |                      |                  |                   |                      |                  |                |                      |                  |
| Commercial mortgage                    | 135            | 16.3                 | 13.8             | 134               | 16.8                 | 13.3             | 148            | 18.7                 | 14.1             |
| Construction                           | 23             | 2.8                  | 1.4              | 25                | 3.2                  | 1.7              | 28             | 3.5                  | 2.0              |
| Total commercial real estate loans     | 158            | 19.1                 | 15.2             | 159               | 20.0                 | 15.0             | 176            | 22.2                 | 16.1             |
| Commercial lease financing             | 43             | 5.2                  | 6.5              | 47                | 5.9                  | 6.7              | 55             | 6.9                  | 7.0              |
| Total commercial loans                 | 678            | 82.1                 | 74.6             | 656               | 82.4                 | 73.9             | 636            | 80.1                 | 72.7             |
| Real estate residential mortgage       | 20             | 2.4                  | 3.7              | 18                | 2.3                  | 3.7              | 21             | 2.7                  | 3.8              |
| Home equity loans                      | 64             | 7.7                  | 16.8             | 57                | 7.2                  | 17.3             | 63             | 7.9                  | 18.2             |
| Consumer direct loans                  | 20             | 2.4                  | 2.6              | 20                | 2.5                  | 2.7              | 21             | 2.7                  | 2.7              |
| Credit cards                           | 31             | 3.8                  | 1.3              | 32                | 4.0                  | 1.3              | 32             | 4.0                  | 1.3              |
| Consumer indirect loans                | 13             | 1.6                  | 1.0              | 13                | 1.6                  | 1.1              | 21             | 2.6                  | 1.3              |
| Total consumer loans                   | 148            | 17.9                 | 25.4             | 140               | 17.6                 | 26.1             | 158            | 19.9                 | 27.3             |

|                            |               |               |               |        |        |        |        |        |        |
|----------------------------|---------------|---------------|---------------|--------|--------|--------|--------|--------|--------|
| Total loans <sup>(a)</sup> | <b>\$ 826</b> | <b>100.0%</b> | <b>100.0%</b> | \$ 796 | 100.0% | 100.0% | \$ 794 | 100.0% | 100.0% |
|----------------------------|---------------|---------------|---------------|--------|--------|--------|--------|--------|--------|

(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of \$24 million, \$28 million, and \$25 million at March 31, 2016, December 31, 2015, and March 31, 2015, respectively.

Our provision for credit losses was \$89 million for the first quarter of 2016, compared to \$35 million for the first quarter of 2015. The increase in our provision is primarily due to the growth in our loan portfolio over the past twelve months, lower recoveries in the first three months of 2016, and increased charge-offs, primarily in the oil and gas portfolio, compared to the first three months of 2015. We continue to reduce our exposure in our higher-risk businesses, including the residential properties portion of our construction loan portfolio, marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers, or net loan charge-offs.

Asset quality on our oil and gas loan portfolio, which represents approximately 2% of total loans at March 31, 2016, was the main driver of negative credit migration in our loan portfolio. The credit migration in the oil and gas portfolio was primarily due to new regulatory guidance that came out late in the first quarter of 2016. As a result of the credit migration, the oil and gas portfolio represented approximately 90% of the \$289 million increase in nonperforming loans since December 31, 2015. Our reserve for credit losses allocated to our oil and gas loan exposure was 8% of the total oil and gas loan portfolio at March 31, 2016, up from 6% at December 31, 2015, and reflected the estimated impact of current oil prices at that date.

#### Net loan charge-offs

Net loan charge-offs for the first quarter of 2016 totaled \$46 million, or .31% of average loans, compared to net loan charge-offs of \$28 million, or .20%, for the same period last year. Figure 37 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 38.

Over the past 12 months, net loan charge-offs increased \$18 million. This increase is attributable to the growth in our loan portfolio and lower levels of recoveries coupled with higher levels of charge-offs over the same period. As shown in Figure 40, our exit loan portfolio contributed a total of \$4 million in net loan charge-offs for the first quarter of 2016, compared to \$3 million in net loan charge-offs for the first quarter of 2015. The increase in net loan charge-offs in our exit loan portfolio was primarily driven by higher levels of net loan charge-offs in our commercial exit loan portfolio.

**Table of Contents****Figure 37. Net Loan Charge-offs from Continuing Operations <sup>(a)</sup>**

| <i>dollars in millions</i>   | <b>2016</b>  |        | <b>2015</b> |        |       |
|--|--------------|--------|-------------|--------|-------|
|  | <b>First</b> | Fourth | Third       | Second | First |
| Commercial, financial and agricultural                                       | <b>\$ 23</b> | \$ 15  | \$ 24       | \$ 15  | \$ 7  |
| Real estate Commercial mortgage  | <b>(1)</b>   | (2)    |             |        |       |
| Real estate Construction   | <b>(1)</b>   |        |             | (1)    | 1     |
| Commercial lease financing   | <b>3</b>     | 6      |             |        | (2)   |
| <b>Total commercial loans</b>  | <b>24</b>    | 19     | 24          | 14     | 6     |
| Real estate Residential mortgage   |              |        | 1           |        | 2     |
| Home equity loans  | <b>7</b>     | 5      | 3           | 8      | 5     |
| Consumer direct loans  | <b>5</b>     | 5      | 5           | 4      | 4     |
| Credit cards   | <b>7</b>     | 7      | 6           | 7      | 8     |
| Consumer indirect loans  | <b>3</b>     | 1      | 2           | 3      | 3     |
| <b>Total consumer loans</b>  | <b>22</b>    | 18     | 17          | 22     | 22    |
| <b>Total net loan charge-offs</b>  | <b>\$ 46</b> | \$ 37  | \$ 41       | \$ 36  | \$ 28 |
| <b>Net loan charge-offs to average loans</b>                                 | <b>.31%</b>  | .25%   | .27%        | .25%   | .20%  |
| Net loan charge-offs from discontinued operations education lending business | <b>\$ 6</b>  | \$ 7   | \$ 7        | \$ 2   | \$ 6  |

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

Table of Contents**Figure 38. Summary of Loan and Lease Loss Experience from Continuing Operations**

| <i>dollars in millions</i>                                 | <b>Three months ended March 31,</b> |                  |
|--|-------------------------------------|------------------|
|  | <b>2016</b>                         | <b>2015</b>      |
| Average loans outstanding                                  | <b>\$ 60,156</b>                    | <b>\$ 57,512</b> |
| Allowance for loan and lease losses at beginning of period | <b>\$ 796</b>                       | <b>\$ 794</b>    |
| Loans charged off:   |                                     |                  |
| Commercial, financial and agricultural                     | <b>26</b>                           | 12               |
| Real estate commercial mortgage                            | <b>1</b>                            | 2                |
| Real estate construction                                   |                                     | 1                |
| Total commercial real estate loans <sup>(a)</sup>          | <b>1</b>                            | 3                |
| Commercial lease financing                                 | <b>3</b>                            | 2                |
| Total commercial loans <sup>(b)</sup>                      | <b>30</b>                           | 17               |
| Real estate residential mortgage                           | <b>2</b>                            | 2                |
| Home equity loans  | <b>10</b>                           | 8                |
| Consumer direct loans                                      | <b>6</b>                            | 6                |
| Credit cards   | <b>8</b>                            | 8                |
| Consumer indirect loans                                    | <b>4</b>                            | 6                |
| Total consumer loans                                       | <b>30</b>                           | 30               |
| Total loans charged off                                    | <b>60</b>                           | 47               |
| Recoveries:  |                                     |                  |
| Commercial, financial and agricultural                     | <b>3</b>                            | 5                |
| Real estate commercial mortgage                            | <b>2</b>                            | 2                |
| Real estate construction                                   | <b>1</b>                            |                  |
| Total commercial real estate loans <sup>(a)</sup>          | <b>3</b>                            | 2                |
| Commercial lease financing                                 |                                     | 4                |
| Total commercial loans <sup>(b)</sup>                      | <b>6</b>                            | 11               |
| Real estate residential mortgage                           | <b>2</b>                            |                  |
| Home equity loans  | <b>3</b>                            | 3                |
| Consumer direct loans                                      | <b>1</b>                            | 2                |
| Credit cards   | <b>1</b>                            |                  |
| Consumer indirect loans                                    | <b>1</b>                            | 3                |
| Total consumer loans                                       | <b>8</b>                            | 8                |
| Total recoveries   | <b>14</b>                           | 19               |

|  |        |        |
|--|--------|--------|
| Net loan charge-offs   | (46)   | (28)   |
| Provision (credit) for loan and lease losses   | 76     | 29     |
| Foreign currency translation adjustment  |        | (1)    |
| Allowance for loan and lease losses at end of period                                       | \$ 826 | \$ 794 |
| Liability for credit losses on lending-related commitments at beginning of period          | \$ 56  | \$ 35  |
| Provision (credit) for losses on lending-related commitments                               | 13     | 6      |
| Liability for credit losses on lending-related commitments at end of period <sup>(c)</sup> | \$ 69  | \$ 41  |
| Total allowance for credit losses at end of period   | \$ 895 | \$ 835 |
| Net loan charge-offs to average total loans  | .31%   | .20%   |
| Allowance for loan and lease losses to period-end loans                                    | 1.37   | 1.37   |
| Allowance for credit losses to period-end loans  | 1.48   | 1.44   |
| Allowance for loan and lease losses to nonperforming loans                                 | 122.2  | 181.7  |
| Allowance for credit losses to nonperforming loans   | 132.4  | 191.1  |
| Discontinued operations — education lending business:                                      |        |        |
| Loans charged off  | \$ 9   | \$ 10  |
| Recoveries   | 3      | 4      |
| Net loan charge-offs   | \$ (6) | \$ (6) |

- (a) See Figure 19 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 18 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.



**Table of Contents****Nonperforming assets**

Figure 39 shows the composition of our nonperforming assets. These assets totaled \$692 million at March 31, 2016, and represented 1.14% of period-end portfolio loans, OREO and other nonperforming assets, compared to \$403 million, or .67%, at December 31, 2015, and \$457 million, or .79%, at March 31, 2015. 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 121 of our 2015 Form 10-K for a summary of our nonaccrual and charge-off policies.

**Figure 39. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations**

| <i>dollars in millions</i>   | March 31,<br>2016 | December 31,<br>2015 | September 30,<br>2015 | June 30,<br>2015 | March 31,<br>2015 |
|--|-------------------|----------------------|-----------------------|------------------|-------------------|
| Commercial, financial and agricultural                                       | \$ 380            | \$ 82                | \$ 89                 | \$ 100           | \$ 98             |
| Real estate commercial mortgage  | 16                | 19                   | 23                    | 26               | 30                |
| Real estate construction   | 12                | 9                    | 9                     | 12               | 12                |
| Total commercial real estate loans <sup>(a)</sup>                            | 28                | 28                   | 32                    | 38               | 42                |
| Commercial lease financing   | 11                | 13                   | 21                    | 18               | 20                |
| Total commercial loans <sup>(b)</sup>  | 419               | 123                  | 142                   | 156              | 160               |
| Real estate - residential mortgage   | 59                | 64                   | 67                    | 67               | 72                |
| Home equity loans  | 191               | 190                  | 181                   | 184              | 191               |
| Consumer direct loans  | 1                 | 2                    | 1                     | 1                | 2                 |
| Credit cards   | 2                 | 2                    | 2                     | 2                | 2                 |
| Consumer indirect loans  | 4                 | 6                    | 7                     | 9                | 10                |
| Total consumer loans   | 257               | 264                  | 258                   | 263              | 277               |
| Total nonperforming loans <sup>(c)</sup>                                     | 676               | 387                  | 400                   | 419              | 437               |
| OREO   | 14                | 14                   | 17                    | 20               | 20                |
| Other nonperforming assets   | 2                 | 2                    |                       | 1                |                   |
| Total nonperforming assets   | \$ 692            | \$ 403               | \$ 417                | \$ 440           | \$ 457            |
| Accruing loans past due 90 days or more                                      | \$ 70             | \$ 72                | \$ 54                 | \$ 66            | \$ 111            |
| Accruing loans past due 30 through 89 days                                   | 237               | 208                  | 271                   | 181              | 216               |
| Restructured loans accruing and nonaccruing <sup>(d)</sup>                   | 283               | 280                  | 287                   | 300              | 268               |
| Restructured loans included in nonperforming loans <sup>(d)</sup>            | 151               | 159                  | 160                   | 170              | 141               |
| Nonperforming assets from discontinued operations education lending business | 6                 | 7                    | 8                     | 6                | 8                 |
|  | 1.12%             | .65%                 | .67%                  | .72%             | .75%              |

Nonperforming loans to period-end  
portfolio loans

Nonperforming assets to period-end  
portfolio loans plus OREO and other  
nonperforming assets

|             |     |     |     |     |
|-------------|-----|-----|-----|-----|
| <b>1.14</b> | .67 | .69 | .75 | .79 |
|-------------|-----|-----|-----|-----|

- (a) See Figure 19 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 18 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial loan portfolio.
- (c) Loan balances exclude \$11 million, \$11 million, \$12 million, \$12 million, and \$12 million of PCI loans at March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, respectively.
- (d) 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 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.

As shown in Figure 39, nonperforming assets at March 31, 2016, increased \$235 million from one year ago. Increases in nonperforming assets in the commercial, financial and agricultural portfolio, which were primarily due to the credit migration in the oil and gas portfolio, were partially offset by declines in nonperforming assets in the commercial real estate, consumer lease financing, and consumer loan portfolios. As shown in Figure 40, our exit loan portfolio accounted for \$14 million, or 2%, of our total nonperforming assets at March 31, 2016, compared to \$32 million, or 7%, at March 31, 2015.

At March 31, 2016, the approximate carrying amount of our commercial nonperforming loans outstanding represented 89% of their contractual amount owed, total nonperforming loans outstanding represented 88% of their contractual amount owed, and nonperforming assets in total were carried at 88% of their original contractual amount owed. At the same date, OREO and other nonperforming assets represented 74% of its original contractual amount owed.

At March 31, 2016, our 20 largest nonperforming loans totaled \$359 million, representing 54% of total nonperforming loans. At March 31, 2015, our 20 largest nonperforming loans totaled \$123 million, representing 28% of total nonperforming loans.

Figure 40 shows the composition of our exit loan portfolio at March 31, 2016, and March 31, 2015, the net loan charge-offs recorded on this portfolio for the first quarter of 2016 and the first quarter of 2015, and the nonperforming status of these loans at March 31, 2016, and March 31, 2015. The exit loan portfolio represented 3% of total loans and loans held for sale at March 31, 2016, and March 31, 2015.

Table of Contents**Figure 40. Exit Loan Portfolio from Continuing Operations**

| <i>in millions</i>  | Balance Outstanding |          | Change              | Net Loan Charge-offs |                        | Balance on Nonperforming Status |         |
|---|---------------------|----------|---------------------|----------------------|------------------------|---------------------------------|---------|
|   | 3-31-16             | 3-31-15  | 3-31-16 vs. 3-31-15 | 3-31-16              | 3-31-15 <sup>(b)</sup> | 3-31-16                         | 3-31-15 |
| Residential properties homebuilder  | \$ 6                | \$ (6)   | \$ 1                | \$ 3                 | \$ 8                   |                                 |         |
| Marine and RV floor plan  | 6                   | (6)      |                     |                      | 5                      |                                 |         |
| Commercial lease financing <sup>(a)</sup>   | \$ 743              | 877      | (134)               | \$ 1                 | (1)                    |                                 |         |
| Total commercial loans  | 743                 | 889      | (146)               | 1                    |                        | 3                               | 13      |
| Home equity Other   | 195                 | 253      | (58)                | 1                    |                        | 7                               | 9       |
| Marine  | 544                 | 730      | (186)               | 2                    | 2                      | 4                               | 9       |
| RV and other consumer   | 39                  | 50       | (11)                |                      | 1                      |                                 | 1       |
| Total consumer loans  | 778                 | 1,033    | (255)               | 3                    | 3                      | 11                              | 19      |
| Total exit loans in loan portfolio  | \$ 1,521            | \$ 1,922 | \$ (401)            | \$ 4                 | \$ 3                   | \$ 14                           | \$ 32   |
| Discontinued operations education lending business (not included in exit loans above) | \$ 1,760            | \$ 2,219 | \$ (459)            | \$ 6                 | \$ 6                   | \$ 6                            | \$ 8    |

(a) Includes (1) the business aviation, commercial vehicle, office products, construction, and industrial leases; (2) Canadian lease financing portfolios; (3) European lease financing portfolios; and (4) all remaining balances related to lease in, lease out; sale in, lease out; service contract leases; and qualified technological equipment leases.

(b) Credit amounts indicate recoveries exceeded charge-offs.

Figure 41 shows the types of activity that caused the change in our nonperforming loans during each of the last five quarters.

**Figure 41. Summary of Changes in Nonperforming Loans from Continuing Operations**

| <i>in millions</i>                      | 2016   |        | 2015   |        |        |
|---|--------|--------|--------|--------|--------|
|   | First  | Fourth | Third  | Second | First  |
| Balance at beginning of period          | \$ 387 | \$ 400 | \$ 419 | \$ 437 | \$ 418 |
| Loans placed on nonaccrual status       | 406    | 81     | 81     | 92     | 123    |
| Charge-offs                             | (60)   | (51)   | (53)   | (52)   | (47)   |
| Loans sold                              | (11)   |        | (2)    |        |        |
| Payments                                | (8)    | (21)   | (16)   | (25)   | (9)    |
| Transfers to OREO                       | (4)    | (4)    | (4)    | (5)    | (7)    |
| Transfers to other nonperforming assets |        |        | (1)    |        |        |
| Loans returned to accrual status        | (34)   | (17)   | (25)   | (28)   | (41)   |

|  |               |        |        |        |        |
|--|---------------|--------|--------|--------|--------|
| <b>Balance at end of period</b> <sup>(a)</sup> | <b>\$ 676</b> | \$ 387 | \$ 400 | \$ 419 | \$ 437 |
|--|---------------|--------|--------|--------|--------|

(a) Loan balances exclude \$11 million, \$11 million, \$12 million, \$12 million, and \$12 million of PCI loans at March 31, 2016, December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, respectively. Figure 42 shows the factors that contributed to the change in our OREO during each of the last five quarters.

**Figure 42. Summary of Changes in Other Real Estate Owned, Net of Allowance, from Continuing Operations**

| <i>in millions</i>                      | 2016         |        | 2015  |        |       |
|---|--------------|--------|-------|--------|-------|
|   | First        | Fourth | Third | Second | First |
| <b>Balance at beginning of period</b>   | <b>\$ 14</b> | \$ 17  | \$ 20 | \$ 20  | \$ 18 |
| Properties acquired nonperforming loans | 4            | 4      | 4     | 5      | 7     |
| Valuation adjustments                   | (1)          | (2)    | (2)   | (1)    | (1)   |
| Properties sold                         | (3)          | (5)    | (5)   | (4)    | (4)   |
| <b>Balance at end of period</b>         | <b>\$ 14</b> | \$ 14  | \$ 17 | \$ 20  | \$ 20 |

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### **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 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. We have created work teams to respond to and analyze the regulatory requirements that have been or will be promulgated as a result of the enactment of the Dodd-Frank Act. 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 consumer 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 interfere with their ability to fulfill their contractual obligations to us, with attendant potential for financial loss or liability that could adversely affect our financial condition or results of operations. Recent high-profile cyberattacks have targeted retailers 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. 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 119 of our 2015 Form 10-K should be reviewed for a greater understanding of how we record and report our financial performance.

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 103 through 107 of our 2015 Form 10-K.

At March 31, 2016, \$16 billion, or 17%, of our total assets were measured at fair value on a recurring basis. Approximately 98% of these assets, before netting adjustments, were classified as Level 1 or Level 2 within the fair value hierarchy. At March 31, 2016, \$1 billion, or 2%, of our total liabilities were measured at fair value on a recurring basis. All of these liabilities were classified as Level 1 or Level 2.

During the first quarter of 2016, \$30 million of our total assets were measured at fair value on a nonrecurring basis. All of these assets were classified as Level 3. At March 31, 2016, there were no liabilities measured at fair value on a nonrecurring basis.

During the first three months of 2016, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

**Table of Contents****European Sovereign and Non-Sovereign Debt Exposures**

Our total European sovereign and non-sovereign debt exposure is presented in Figure 43.

**Figure 43. European Sovereign and Non-Sovereign Debt Exposures**

| <b>March 31, 2016</b>                    | <b>Short-and Long-<br/>Term Commercial</b> | <b>Foreign Exchange<br/>and<br/>Derivatives<br/>with<br/>Collateral<sup>(b)</sup></b> | <b>Net</b>      |
|--|--|---|-----------------|
| <i>in millions</i>                       | <b>Total<sup>(a)</sup></b>                 |   | <b>Exposure</b> |
| <b>France:</b>                           |  |   |                 |
| Sovereigns                               |  |   |                 |
| Non-sovereign financial institutions     |  | \$ 1  | \$ 1            |
| Non-sovereign non-financial institutions | \$ 14                                      |   | 14              |
| <b>Total</b>                             | <b>14</b>                                  | <b>1</b>  | <b>15</b>       |
| <b>Germany:</b>                          |  |   |                 |
| Sovereigns                               |  |   |                 |
| Non-sovereign financial institutions     |  |   |                 |
| Non-sovereign non-financial institutions | 186  |   | 186             |
| <b>Total</b>                             | <b>186</b>                                 |   | <b>186</b>      |
| <b>Greece:</b>                           |  |   |                 |
| Sovereigns                               |  |   |                 |
| Non-sovereign financial institutions     |  |   |                 |
| Non-sovereign non-financial institutions |  |   |                 |
| <b>Total</b>                             |  |   |                 |
| <b>Iceland:</b>                          |  |   |                 |
| Sovereigns                               |  |   |                 |
| Non-sovereign financial institutions     |  |   |                 |
| Non-sovereign non-financial institutions |  |   |                 |
| <b>Total</b>                             |  |   |                 |
| <b>Ireland:</b>                          |  |   |                 |
| Sovereigns                               |  |   |                 |
| Non-sovereign financial institutions     |  |   |                 |
| Non-sovereign non-financial institutions |  |   |                 |
| <b>Total</b>                             |  |   |                 |



|  |    |     |     |
|--|----|-----|-----|
| Italy:                                   |    |     |     |
| Sovereigns                               |    |     |     |
| Non-sovereign financial institutions     |    |     |     |
| Non-sovereign non-financial institutions | 31 |     | 31  |
| Total                                    | 31 |     | 31  |
| Netherlands:                             |    |     |     |
| Sovereigns                               |    |     |     |
| Non-sovereign financial institutions     |    |     |     |
| Non-sovereign non-financial institutions | 12 |     | 12  |
| Total                                    | 12 |     | 12  |
| Portugal:                                |    |     |     |
| Sovereigns                               |    |     |     |
| Non-sovereign financial institutions     |    |     |     |
| Non-sovereign non-financial institutions |    |     |     |
| Total                                    |    |     |     |
| Spain:                                   |    |     |     |
| Sovereigns                               |    |     |     |
| Non-sovereign financial institutions     |    |     |     |
| Non-sovereign non-financial institutions | 20 |     | 20  |
| Total                                    | 20 |     | 20  |
| Switzerland:                             |    |     |     |
| Sovereigns                               |    |     |     |
| Non-sovereign financial institutions     |    | (1) | (1) |
| Non-sovereign non-financial institutions | 61 |     | 61  |
| Total                                    | 61 | (1) | 60  |
| United Kingdom:                          |    |     |     |
| Sovereigns                               |    |     |     |
| Non-sovereign financial institutions     |    | 117 | 117 |
| Non-sovereign non-financial institutions | 78 |     | 78  |
| Total                                    | 78 | 117 | 195 |
| Other Europe: <sup>(c)</sup>             |    |     |     |
| Sovereigns                               |    |     |     |
| Non-sovereign financial institutions     |    |     |     |
| Non-sovereign non-financial institutions | 69 |     | 69  |
| Total                                    | 69 |     | 69  |
| Total Europe:                            |    |     |     |
| Sovereigns                               |    |     |     |

|  |        |        |        |     |
|--|--------|--------|--------|-----|
| Non-sovereign financial institutions     |        | 117    |        | 117 |
| Non-sovereign non-financial institutions | 471    |        |        | 471 |
| Total                                    | \$ 471 | \$ 117 | \$ 588 |     |

- (a) Represents our outstanding leases.
- (b) Represents contracts to hedge our balance sheet asset and liability needs, and to accommodate our clients' trading 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.
- (c) Other Europe consists of the following countries: Austria, Belarus, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, Hungary, Lithuania, Luxembourg, Malta, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Sweden, and Ukraine. 100% of our exposure in Other Europe is in Belgium, Finland, 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 3. Quantitative and Qualitative Disclosure about Market Risk**

The information presented in the Market risk management section of the Management's Discussion & Analysis of Financial Condition & Results of Operations is incorporated herein by reference.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, KeyCorp carried out an evaluation, under the supervision and with the participation of KeyCorp's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of KeyCorp's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)), to ensure that information required to be disclosed by KeyCorp in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to KeyCorp's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, KeyCorp's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective, in all material respects, as of the end of the period covered by this report. No changes were made to KeyCorp's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, KeyCorp's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

The information presented in the Legal Proceedings section of Note 15 (Contingent Liabilities and Guarantees) of the Notes to Consolidated Financial Statements (Unaudited) is incorporated herein by reference.

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

**Item 1A. Risk Factors**

For a discussion of certain risk factors affecting us, see the section titled Supervision and Regulation in Part I, Item 1. Business, on pages 9-18 of our 2015 Form 10-K; Part I, Item 1A. Risk Factors, on pages 18-30 of our 2015 Form 10-K; the section titled Supervision and regulation in this Form 10-Q; and our disclosure regarding forward-looking

statements in this Form 10-Q.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

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

In January 2015, we submitted to the Federal Reserve and provided to the OCC our 2015 capital plan under the annual CCAR process. On March 11, 2015, the Federal Reserve announced that it did not object to our 2015 capital plan. The 2015 capital plan includes a common share repurchase program of up to \$725 million. Share repurchases under the capital plan were authorized by our Board and include repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2015 capital plan were suspended in the fourth quarter of 2015 due to our pending acquisition of First Niagara. Share repurchases were included in our 2016 capital plan, which we submitted to the Federal Reserve and provided to the OCC in April 2016 under the annual CCAR process.

The following table summarizes our repurchases of our common shares for the three months ended March 31, 2016.

| Calendar month  | Total number of shares |                                 | Total number of shares purchased as part of Maximum number of shares that may publicly announced yet be purchased as part of publicly announced plans or programs |                                    |
|-----------------|------------------------|---------------------------------|---|------------------------------------|
|                 | repurchased<br>(a)     | Average price paid<br>per share | plans or<br>programs  | announced plans or<br>programs (b) |
| January 1 - 31  | 2,908                  | \$ 13.07                        |   | 42,337,106                         |
| February 1 - 29 | 452,263                | 10.93                           |   | 44,316,501                         |
| March 1 - 31    | 422,470                | 11.12                           |   | 41,924,152                         |
| Total           | 877,641                | \$ 11.03                        |   |                                    |

- (a) Includes common shares deemed surrendered by employees in connection with our stock compensation and benefit plans to satisfy tax obligations. There were no common shares repurchased in the open market during the first quarter of 2016.
- (b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares as follows: on January 31, 2016, at \$11.16; on February 29, 2016, at \$10.55; and on March 31, 2016, at \$11.04.

**Item 6. Exhibits**

- 3 Second Amended and Restated Regulations of KeyCorp, effective March 23, 2016.
- 15 Acknowledgment of Independent Registered Public Accounting Firm.

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from KeyCorp's Form 10-Q Report for the quarterly period ended March 31, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Changes in Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

**Information Available on Website**

KeyCorp makes available free of charge on its website, [www.key.com](http://www.key.com), its 2015 Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after KeyCorp electronically files such material with, or furnishes it to, the SEC. We also make available a summary of filings made with the SEC of statements of beneficial ownership of our equity securities filed by our directors and officers under Section 16 of the Exchange Act. The "Regulatory Disclosures and Filings" tab of the investor relations section of our website includes public disclosures concerning our annual and mid-year stress-testing activities under the Dodd-Frank Act. Information contained on or accessible through our website or any other website referenced in this report is not part of this report.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the date indicated.

KEYCORP  
(Registrant)

Date: May 5, 2016

By: /s/ Douglas M. Schosser  
Douglas M. Schosser  
Chief Accounting Officer

(Principal Accounting Officer)