

**KeyCorp**

**Basel III Pillar 3 Regulatory Capital Disclosures  
For the Quarterly Period Ended March 31, 2016**



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## Forward-looking statements

From time to time, Key has 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 Key’s current expectations or forecasts of future events, circumstances, results or aspirations. Key’s disclosures in this report contain forward-looking statements. Key may also make forward-looking statements in other documents filed with or furnished to the SEC. In addition, Key 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 Key’s control. Key’s actual results may differ materially from those set forth in its forward-looking statements. There is no assurance that any list of risks and uncertainties or risk factors is complete. Factors that could cause Key’s 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 Key’s loan counterparties or clients;
- ◆ adverse changes in credit quality trends;
- ◆ declining asset prices;
- ◆ Key’s 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 Key’s technology systems due to technological or other factors and cybersecurity threats;
- ◆ operational or risk management failures by Key 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 Key’s liquidity position, including but not limited to, changes in access to or the cost of funding, Key’s ability to enter the financial markets, and to secure alternative funding sources;
- ◆ Key’s ability to receive dividends from KeyCorp’s subsidiary, KeyBank;
- ◆ downgrades in KeyCorp’s credit ratings or those of KeyBank;
- ◆ a reversal of the U.S. economic recovery due to financial, political, or other shocks;
- ◆ Key’s ability to anticipate interest rate changes and manage interest rate risk;
- ◆ deterioration of economic conditions in the geographic regions where Key operates;

- ◆ the soundness of other financial institutions;
- ◆ Key's ability to attract and retain talented executives and employees and to manage its reputational risks;
- ◆ Key's ability to timely and effectively implement its strategic initiatives;
- ◆ increased competitive pressure due to industry consolidation;
- ◆ unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses;
- ◆ Key's ability to complete the acquisition of First Niagara Financial Group, Inc. and to realize the anticipated benefits of the merger; and
- ◆ Key's ability to develop and effectively use the quantitative models it relies upon in its business planning.

Any forward-looking statements made by Key or on Key's behalf speak only as of the date they are made, and Key does 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 Key's SEC filings, including its report on Form 10-Q for the quarter ended March 31, 2016, and subsequent reports on Forms 8-K, 10-Q, and 10-K and its 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 Key's website at [www.key.com/ir](http://www.key.com/ir).

## **SCOPE OF APPLICATION**

### **Introduction**

KeyCorp, organized in 1958 under the laws of the State of Ohio, is headquartered in Cleveland, Ohio. KeyCorp is a bank holding company (“BHC”) under the Bank Holding Company Act of 1956 (“BHCA”), as amended, and is one of the nation’s largest bank-based financial services companies, with consolidated total assets of \$98.4 billion and shareholders’ equity of \$11.1 billion at March 31, 2016. KeyCorp is the parent holding company for KeyBank National Association (“KeyBank”), its principal subsidiary, through which most of its banking services are provided. In addition to the customary banking services of accepting deposits and making loans, the bank and trust company subsidiaries offer personal, securities lending, and custody services, personal financial services, access to mutual funds, treasury services, investment banking and capital markets products, and international banking services.

As a BHC, KeyCorp is subject to regulation, supervision, and examination by the Federal Reserve Board (the “Federal Reserve”) under the BHCA. The Federal Reserve has established risk-based capital and leverage ratio requirements for BHCs, including KeyCorp. During July 2013, the Federal Reserve issued final rules implementing a strengthened set of capital requirements, known as Basel III, in the United States.

The Basel III Capital Framework, as described below, requires new regulatory capital disclosures under the third pillar of Basel III (“Pillar 3”). The purpose of the Pillar 3 disclosures is to provide key information relating to a bank’s regulatory capital, risk exposures, and risk management practices. This Pillar 3 report is designed to satisfy these requirements and should be read in conjunction with KeyCorp’s Annual Report on Form 10-K for the year ended December 31, 2015 (“2015 Form 10-K”), and KeyCorp’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 (“First Quarter 2016 Form 10-Q”), which have been filed with the U.S. Securities and Exchange Commission (“SEC”).

As used in this report, references to “Key” refer to the consolidated entity consisting of KeyCorp and its subsidiaries. The basis of consolidation used for regulatory reporting is consistent with that used under U.S. Generally Accepted Accounting Principles (“U.S. GAAP”). For more information about Key’s significant accounting policies, refer to Note 1 (“Summary of Significant Accounting Policies”) beginning on page 119 of Key’s 2015 Form 10-K.

Throughout this report, certain financial measures may not be based on GAAP (“non-GAAP financial measures”). These non-GAAP financial measures may not be directly comparable to financial measures reported in Key’s 2015 Form 10-K and First Quarter 2016 Form 10-Q, and may not be directly comparable to similar measures used by other companies. Key’s non-GAAP financial measures are not required to be, and have not been, audited by its independent auditors. Key’s historical SEC and regulatory filings are located in the Investor Relations section of its website at [www.key.com/IR](http://www.key.com/IR).

### **Basel III Capital Framework**

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

In November 2011, the Basel Committee issued its final rule for a common equity surcharge on certain designated global systemically important banks (“G-SIBs”), which was revised in July 2013 (as revised, “Basel G-SIB framework”). Under the Basel G-SIB framework, a G-SIB is assessed a progressive 1.0% to 3.5% surcharge to the Common Equity Tier 1 capital conservation buffer based upon the bank’s systemic importance score. In July 2015, the Federal Reserve adopted a final rule to implement the common equity surcharge on U.S. G-SIBs. The final rule was effective December 1, 2015, although the surcharge 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 (as described below).

## U.S. implementation of the Basel III capital framework

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

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.

### **Basis of Consolidation**

KeyCorp’s basis of consolidation for both financial and regulatory accounting purposes conforms with U.S. GAAP and includes the accounts of KeyCorp and its subsidiaries.

### **Funds and Capital Transfer Restrictions**

For information regarding the restrictions on the transfer of funds and total capital within Key, see “Dividend restrictions” on page 14, “Bank transactions with affiliates” on page 18, and Note 3 (“Restrictions on Cash, Dividends and Lending Activities”) on page 136, all in Key’s 2015 Form 10-K.

### **Compliance with Capital Requirements**

At March 31, 2016, KeyCorp did not have any subsidiaries whose regulatory capital was less than the minimum required regulatory capital amount.

### **Surplus of Insurance Subsidiaries**

An immaterial amount of surplus capital of insurance subsidiaries was included in total shareholders’ equity at March 31, 2016.

## **CAPITAL STRUCTURE**

### **Regulatory Capital Instruments**

Key's qualifying regulatory capital instruments consist of common stock, noncumulative perpetual convertible preferred stock, trust preferred securities, and subordinated debt.

Holders of KeyCorp common stock are entitled to one vote for each common share held by them on each matter properly submitted to shareholders for their vote, consent, waiver, release, or other action. For additional information on the terms and conditions of Key's common stock, see Key's "Consolidated Balance Sheets" on page 5 of Key's First Quarter 2016 Form 10-Q.

KeyCorp noncumulative perpetual preferred stock ranks senior to KeyCorp common stock. So long as any share of preferred stock remains outstanding on any day during a dividend period, no dividend shall be declared or paid on any common stock and no shares of common stock shall be repurchased, unless the full dividends for the immediately preceding dividend period on all outstanding shares of preferred stock have been declared and paid or declared and a sum sufficient for the payment of such dividends has been set aside. The holders of preferred stock do not have any voting rights other than those described in the corresponding certificate of designation. For additional terms and conditions of Key's outstanding preferred stock, see Key's "Consolidated Balance Sheets" on page 5 of Key's First Quarter 2016 Form 10-Q and Exhibit 3.1 ("Amended and Restated Articles of Incorporation of KeyCorp (effective August 12, 2009)") in Key's 2014 Form 10-K, which was incorporated by reference in Key's 2015 Form 10-K.

The adoption of the Basel III 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 Key's trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital starting in 2016. For additional information regarding the terms of Key's outstanding trust preferred securities, see Note 14 ("Trust Preferred Securities Issued by Unconsolidated Subsidiaries") on page 73 of Key's First Quarter 2016 Form 10-Q.

For terms and conditions of Key's outstanding subordinated debt, see Note 18 ("Long-Term Debt") beginning on page 208 of Key's 2015 Form 10-K.

## Regulatory Capital Tiers

The following table presents Key's Common Equity Tier 1, Tier 1 Capital, Tier 2 Capital, and Total Capital at March 31, 2016. For more information on Key's regulatory capital tiers, see Schedule HC-R, "Regulatory Capital" in Key's FR Y-9C.

<i>in millions</i>	<b>March 31, 2016</b>
<b>COMMON EQUITY TIER 1</b>	
Common stock and related surplus	\$ 1,956
Retained earnings	9,042
Common equity minority interest	—
Accumulated other comprehensive income (loss)	(213)
<b>Common Equity Tier 1 capital before adjustments and deductions</b>	<b>10,785</b>
Adjustments and deductions from Common Equity Tier 1 Capital	
Less: Goodwill, net of deferred taxes	1,033
Intangible assets, net of deferred taxes	35
Deferred tax assets	1
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	70
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	46
Amounts in accumulated other comprehensive income (loss) attributed to pension and postretirement benefit costs, net of deferred taxes	(365)
<b>Total Common Equity Tier 1 Capital</b>	<b>9,965</b>
<b>TIER 1 CAPITAL</b>	
Additional Tier 1 capital instruments and related surplus	281
Tier 1 minority interest not included in Common Equity Tier 1 Capital	—
<b>Additional Tier 1 capital before deductions</b>	<b>281</b>
Less: Tier 1 capital deductions	—
<b>Additional Tier 1 capital</b>	<b>281</b>
<b>Total Tier 1 capital</b>	<b>10,246</b>
<b>TIER 2 CAPITAL</b>	
Tier 2 capital instruments and related surplus	649
Total capital minority interest not included in Tier 1 capital	—
Allowance for losses on loans and liability for losses on lending-related commitments	919
Unrealized gains on available-for-sale preferred stock classified as an equity security under GAAP and available-for-sale equity exposures includable in Tier 2 capital	—
<b>Tier 2 capital before deductions</b>	<b>1,568</b>
Less: Tier 2 capital deductions	—
<b>Total Tier 2 capital</b>	<b>1,568</b>
<b>Total risk-based capital</b>	<b>\$ 11,814</b>



## **CAPITAL ADEQUACY**

### **Capital Management and Planning**

Key's capital management framework is generally designed to ensure that Key maintains sufficient capital consistent with its risk profile and all applicable regulatory standards and guidelines. For further information on Key's capital management and capital adequacy, see the sections titled "Capital planning and stress testing" and "Capital adequacy" beginning on pages 13 and 72, respectively, of Key's 2015 Form 10-K and "Supervision and regulation" and "Capital" beginning on pages 90 and 120, respectively, of Key's First Quarter 2016 Form 10-Q.

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

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

The following table presents Key's risk-weighted assets, Common Equity Tier 1 capital ratio, Tier 1 risk-based capital ratio, Total risk-based capital ratio, and Tier 1 leverage ratio at March 31, 2016. For more information on Key's risk-weighted assets, see Schedule HC-R, "Regulatory Capital" in Key's FR Y-9C.

March 31,  
2016

dollars in millions

**RISK-WEIGHTED ASSETS**

**On-balance sheet**

Exposures to sovereign entities		—
Exposures to depository institutions and foreign banks	\$	187
Exposures to government-sponsored enterprises		1,935
Exposures to public sector entities		860
Corporate exposures		42,767
Residential mortgage exposures		8,349
Other retail exposures		4,277
High volatility commercial real estate		375
Past due loans		766
Other assets		5,867
Securitization exposures		78
Equity exposures		2,257
Total on-balance sheet exposures		67,718

**Off-balance sheet and market risk**

Unused commitments with an original maturity of less than one year		1,106
Unused commitments with an original maturity of more than one year		10,854
Derivatives		778
Letters of credit		7,749
All other off balance sheet liabilities		1,232
Market risk		577

Total other exposures 22,296

Total risk-weighted assets \$ 90,014

Total assets for the leverage ratio \$ 95,465

**CAPITAL RATIOS**

Common Equity Tier 1	11.07 %
Tier 1 risk-based capital	11.38
Total risk-based capital	13.12
Tier 1 leverage	10.73

The table below lists KeyBank National Association's Common Equity Tier 1 capital ratio, Tier 1 risk-based capital ratio, Total risk-based capital ratio, and Tier 1 leverage ratio at March 31, 2016.

March 31,  
2016

Common Equity Tier 1	10.79 %
Tier 1 risk-based capital	10.79
Total risk-based capital	12.32
Tier 1 leverage	9.82

## CAPITAL CONSERVATION BUFFER

The following table discloses Key's capital conservation buffer, eligible retained income, and limitations on distributions and discretionary bonus payments under the capital conservation buffer framework at March 31, 2016.

<i>dollars in millions</i>	<b>March 31, 2016</b>	
Capital conservation buffer <sup>(a)</sup>	5.12	%
Eligible retained income <sup>(b)</sup>	\$ 357	
Limitations on distributions and discretionary bonus payments under the capital conservation buffer framework <sup>(c)</sup>	No payout limitation applies	

(a) A Federal Reserve regulated institution's capital conservation buffer is equal to the lowest of the following ratios, calculated as of the last day of the previous calendar quarter based on the Federal Reserve regulated institution's most recent Call Report, for a state member bank, or FR Y-9C, for a bank holding company or savings and loan holding company, as applicable:

- a. The Federal Reserve regulated institution's Common Equity Tier 1 capital ratio minus the Federal Reserve regulated institution's minimum Common Equity Tier 1 capital ratio requirement under 12 C.F.R. §217.10;
- b. The Federal Reserve regulated institution's Tier 1 risk-based capital ratio minus the Federal Reserve regulated institution's minimum Tier 1 risk-based capital ratio requirement under 12 C.F.R. §217.10; and
- c. The Federal Reserve regulated institution's Total risk-based capital ratio minus the Federal Reserve regulated institution's minimum Total risk-based capital ratio requirement under 12 C.F.R. §217.10;

Key's capital conservation buffer for the first quarter of 2016 was based upon the Total risk-based capital ratio.

- (b) The eligible retained income of a Federal Reserve regulated institution is the Federal Reserve regulated institution's net income for the four calendar quarters preceding the current calendar quarter, based on the Federal Reserve regulated institution's quarterly Call Report, for a state member bank, or the FRY-9C, for a bank holding company or savings and loan holding company, as applicable, net of any distributions and associated tax effects not already reflected in net income.
- (c) Payouts are reviewed and approved by the Federal Reserve through the Capital Plan submitted annually through the CCAR process. Key received no objection to its 2015 Capital Plan.

## **RISK MANAGEMENT**

### **Overview**

Like all financial services companies, Key engages in business activities and assumes the related risks. Key's risk management activities are focused on ensuring it properly identifies, measures, and manages such risks across the entire enterprise to maintain safety and soundness and maximize profitability.

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 portfolios 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 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.

For further information on Key's risk management organization, policies, and processes, see "Risk Management" beginning on page 123 of Key's First Quarter 2016 Form 10-Q.

## **CREDIT RISK: GENERAL DISCLOSURES**

### **Overview**

Key manages 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.

Key's credit risk management team and individuals within the 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 at the time of origination, verified by the credit risk management team, and periodically reevaluated thereafter. This risk rating methodology blends 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 Key's view of industry risk within the context of the general economic outlook. Types of exposure, transaction structure, and collateral, including credit risk mitigants, affect the expected recovery assessment.

Key's 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 its products. Key periodically validates the loan grading and scoring processes.

For more information on Key's credit risk management policies, see the sections titled "Nonperforming Loans," "Impaired Loans," "Allowance for Loan and Lease Losses," and "Liability for Credit Losses on Lending-Related Commitments" in Note 1 ("Summary of Significant Accounting Policies") beginning on page 121 of Key's 2015 Form 10-K and "Credit risk management" beginning on page 132 of Key's First Quarter 2016 Form 10-Q. For more information on Key's remaining contractual maturity delineation of contractual obligations and other off-balance sheet commitments, see "Contractual obligations" beginning on page 77 of Key's 2015 Form 10-K. For information regarding the geographic diversity of Key Community Bank and the geographic location of commercial real estate

loans, see the sections titled “Demographics” and “Commercial real estate loans” beginning on pages 88 and 111, respectively, of Key’s First Quarter 2016 Form 10-Q.

Key’s management evaluates credit exposures based on Key’s two major loan categories: commercial loans and consumer loans. Within these two major categories of loans are various detailed loan categories. To provide a more consistent view of how Key views its credit exposure, Key feels that it is helpful to shareholders to present financial information based on this view of Key’s credit exposure. The following table presents Key’s total exposure by loan type, loans past due 90 days and greater on nonaccrual, loans past due 90 days and greater that are accruing, and total past due and nonperforming loans at March 31, 2016.

<b>March 31, 2016</b> <i>in millions</i>	<b>Total Loans</b>	<b>90 and Greater Days Past Due Nonaccrual</b>	<b>90 and Greater Days Past Due Accrual</b>	<b>Total Past Due and Nonperforming Loans</b>
<b>LOAN TYPE</b>				
Commercial, financial and agricultural	\$ 31,976	\$ 380	\$ 13	\$ 454
Commercial real estate:				
Commercial mortgage	8,364	16	15	37
Construction	841	12	1	34
Total commercial real estate loans	9,205	28	16	71
Commercial lease financing	3,934	11	12	66
Total commercial loans	<u>\$ 45,115</u>	<u>\$ 419</u>	<u>\$ 41</u>	<u>\$ 591</u>
Real estate — residential mortgage	\$ 2,234	\$ 59	\$ 2	\$ 73
Home equity loans	10,149	191	13	269
Consumer direct loans	1,579	1	5	15
Credit cards	782	2	7	18
Consumer indirect loans	579	4	2	17
Total consumer loans	<u>\$ 15,323</u>	<u>\$ 257</u>	<u>\$ 29</u>	<u>\$ 392</u>
Total loans	<u>\$ 60,438</u>	<u>\$ 676</u>	<u>\$ 70</u>	<u>\$ 983</u>

The following table presents Key's nonperforming loans with no related allowance and nonperforming loans with a related allowance at March 31, 2016.

<b>March 31, 2016</b> <i>in millions</i>	<b>Loans With No Related Allowance</b>	<b>Loans With Related Allowance</b>
<b>LOAN TYPE</b>		
Commercial, financial and agricultural	\$ 260	\$ 101
Commercial real estate:		
Commercial mortgage	4	4
Construction	8	—
Total commercial real estate loans	12	4
Total commercial loans	<u>\$ 272</u>	<u>\$ 105</u>
Real estate — residential mortgage	\$ 23	\$ 32
Home equity loans	68	65
Consumer direct loans	—	3
Credit cards	—	3
Consumer indirect loans	1	35
Total consumer loans	<u>\$ 92</u>	<u>\$ 138</u>
Total loans	<u>\$ 364</u>	<u>\$ 243</u>

The changes in the ALLL by loan category for the period ended March 31, 2016, is as follows:

<i>in millions</i>	<b>ALLL at December 31, 2015</b>	<b>Provision</b>	<b>Charge-offs</b>	<b>Recoveries</b>	<b>ALLL at March 31, 2016</b>
<b>LOAN TYPE</b>					
Commercial, financial and agricultural	\$ 450	\$ 50	\$ (26)	\$ 3	\$ 477
Commercial real estate:					
Commercial mortgage	134	—	(1)	2	135
Construction	25	(3)	—	1	23
Total commercial real estate loans	159	(3)	(1)	3	158
Commercial lease financing	47	(1)	(3)	—	43
Total commercial loans	<u>\$ 656</u>	<u>\$ 46</u>	<u>\$ (30)</u>	<u>\$ 6</u>	<u>\$ 678</u>
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
Total consumer loans	<u>\$ 140</u>	<u>\$ 30</u>	<u>\$ (30)</u>	<u>\$ 8</u>	<u>\$ 148</u>
Total loans	<u>\$ 796</u>	<u>\$ 76<sup>(a)</sup></u>	<u>\$ (60)</u>	<u>\$ 14</u>	<u>\$ 826</u>

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

## **GENERAL DISCLOSURE FOR COUNTERPARTY CREDIT RISK-RELATED EXPOSURES**

### **Overview**

Counterparty credit risk is the risk arising from the possibility that a counterparty may default on amounts owed on a derivative transaction. This risk is measured as the expected positive replacement value of the contracts. Key uses several means to mitigate and manage exposure to credit risk on derivative contracts.

### **Counterparty Credit Risk Exposures for Derivatives**

Key monitors counterparty credit risk exposure on each contract to determine appropriate limits on its total credit exposure across all product types. Key also reviews its collateral positions on a daily basis and exchanges collateral with its counterparties in accordance with standard International Swaps and Derivatives Association documentation, central clearing rules, and other related agreements. To address the risk of default associated with the uncollateralized contracts, Key has established a credit valuation adjustment that it estimates to be the potential future losses on amounts due from client counterparties in the event of default. Key generally holds collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises, or Ginnie Mae.

### **Counterparty Credit Risk Exposure for Securities Financing Agreements**

Like other financing transactions, securities financing agreements contain an element of credit risk. Key establishes and monitors limits on its counterparty credit risk exposure by product type. Key generally enters into master netting agreements and other collateral arrangements that give Key the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. For the reverse repurchase agreements, Key monitors the value of the underlying securities it receives from counterparties and either requests additional collateral or returns a portion of the collateral based on the value of those securities. Key generally holds collateral in the form of highly rated securities issued by the U.S. Treasury and fixed income securities. In addition, Key may need to provide collateral to counterparties under its repurchase agreements and securities borrowed transactions. In general, the collateral Key pledges and receives is governed by the repurchase/reverse repurchase agreements in place with each counterparty as to whether the collateral can be sold or pledged by the secured parties.

### **Impact on Derivatives of Key Credit Rating Downgrade**

For information on the impact of a credit rating downgrade on KeyBank or KeyCorp, see the section titled “Credit Risk Contingent Features” in Note 7 (“Derivatives and Hedging Activities”) beginning on page 57 of Key’s First Quarter 2016 Form 10-Q.

### **Derivative Counterparty Credit Risk Exposures**

For information regarding derivative counterparty credit risk exposures, including the fair value of derivative assets, the credit valuation adjustment, and the impact of netting contracts and the offsetting of collateral held, see the section titled “Counterparty Credit Risk” in Note 7 (“Derivatives and Hedging Activities”) beginning on page 55 of Key’s First Quarter 2016 Form 10-Q.

### **Credit Derivative Notional Amounts**

For information on the notional amounts of purchased and sold credit derivatives by product type, see Schedule HC-L, “Derivatives and Off-Balance Sheet Items” in Key’s FR Y-9C, “Consolidated Financial Statements for Holding Companies” for the period ended March 31, 2016.

## **CREDIT RISK MITIGATION**

### **Overview**

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

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, Key may settle in one of two ways if the underlying reference entity experiences a predefined credit event. Key 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 Key effects a physical settlement and receives its portion of the related debt obligation, it will join other creditors in the liquidation process, which may enable Key to recover a portion of the amount paid under the credit default swap contract. Key also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit it to recover the amount it pays 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, Key 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.

In a risk participation agreement transaction, 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.

For more information on Key’s credit derivatives and credit risk mitigation policies, see the sections titled “Counterparty Credit Risk” and “Credit Derivatives” in Note 7 (“Derivatives and Hedging Activities”) beginning on pages 55 and 56, respectively, of Key’s First Quarter 2016 Form 10-Q.



## **SECURITIZATION**

As a normal course of business Key does not securitize any of its own assets, nor does it invest in any securitization that would be considered a securitization under the Basel III rules. Key's only exposure to securitizations for Basel III purposes are through investments contained within its corporate-owned life insurance/bank-owned life insurance portfolio, and through a small portfolio of securities that were acquired through previous acquisitions. Key's total risk-weighted asset impact from securitizations at March 31, 2016, is displayed in the table below.

<b>March 31, 2016</b> <i>in millions</i>	<b>On-Balance Sheet</b> <b>Amount</b>	<b>Risk-Weighted</b> <b>Asset Amount</b>
Securities <sup>(a)</sup>	—	—
Other assets <sup>(b)</sup>	\$ 78	\$ 78
<b>Total</b>	<b>\$ 78</b>	<b>\$ 78</b>

(a) The securities portfolio is only \$33,000 with a risk-weighted asset amount of \$413,000.

(b) Other assets include Key's corporate-owned life insurance/bank-owned life insurance portfolio.

## **EQUITIES NOT SUBJECT TO SUBPART F OF THIS PART (THE MARKET RISK RULE)**

### **Overview**

Key's equity investments that are not subject to the Market Risk Rule are entered into for strategic business reasons or regulatory purposes. For more information on the valuation, treatment, and realized and unrealized gains and losses of these equity securities, see the section titled "Qualitative Disclosures of Valuation Techniques" in Note 5 ("Fair Value Measurements") and Note 6 ("Securities") beginning on pages 32 and 47, respectively, in Key's First Quarter 2016 Form 10-Q.

The following table presents the carrying and fair values and the associated exposure and risk-weighted asset amounts of Key's equity investments that are not subject to the Market Risk Rule at March 31, 2016.

### **March 31, 2016**

<i>in millions</i>	<b>Carrying Value</b>	<b>Fair Value</b>
Non-publicly traded	\$ 2,608	\$ 2,608
Publicly traded	17	17
<b>Total</b>	<b>\$ 2,625</b>	<b>\$ 2,625</b>

### **March 31, 2016**

<i>in millions</i>	<b>Exposure Amount</b> <sup>(a)</sup>	<b>Risk-Weighted Asset Amount</b>
<b>Risk-Weights</b>		
0%	\$ 224	—
20%	168	\$ 34
50%	119	60
100%	2,086	2,086
150%	14	21
400%	14	56
<b>Total</b>	<b>\$ 2,625</b>	<b>\$ 2,257</b>

(a) Exposure amount includes \$837 million of separate and hybrid account Key corporate-owned life insurance/bank-owned life insurance assets.

## **INTEREST RATE RISK FOR NONTRADING ACTIVITIES**

### **Overview**

Most of Key's nontrading market risk is derived from interest rate fluctuations and its impacts on Key's 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 economic value of equity ("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. Key manages the exposure to changes in net interest income and the EVE in accordance with its 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 Key's markets, changes in market interest rates that affect client activity, and Key's 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 Key's Board provides oversight of nontrading market risk. The Enterprise Risk Management ("ERM") Committee and the Asset/Liability Management Committee ("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 Asset Liability Management 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 Market Risk Management Group, as the second line of defense, provides additional oversight.

For more information on Key's interest rate risk and nontrading market risk, see "Market risk management" beginning on page 124 of Key's First Quarter 2016 Form 10-Q.

### **Simulation analysis**

The primary tool Key uses to measure its interest rate risk is simulation analysis. For purposes of this analysis, Key estimates its net interest income based on the current and projected composition of its 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.

Key measures 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. Key's standard rate scenarios encompass a gradual increase or decrease of 200 basis points, but due to the low interest rate environment, it 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, Key compares that amount with the base case of an unchanged interest rate environment. Key also performs 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. Key tailors assumptions to the specific interest rate environment and yield

curve shape being modeled, and validates those assumptions on a regular basis. Key's 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.

The following table presents the results of the simulation analysis at March 31, 2016. At March 31, 2016, Key's 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 following table, we are operating within these levels as of March 31, 2016.

**March 31, 2016**

Basis point change assumption (short-term rates)	-50	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-3.19 %	2.23 %

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicate that net interest income could increase or decrease from the base simulation results presented in the table above. 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. Key's historical deposit repricing betas in the last rising rate cycle ranged between 50% and 60% for interest-bearing deposits, and Key continues to make similar assumptions in its modeling. The sensitivity testing of these assumptions supports Key's confidence that actual results are likely to be within a 100 basis point range of modeled results.

## **REFERENCES TO THE CORPORATION'S SEC FILINGS**

Key's SEC filings include important information that may assist readers' understanding of the disclosures made in this report. Specific references to Key's SEC filings are listed below.

<b>Pillar 3 Requirement</b>	<b>Description</b>	<b>Pillar 3 Report</b>	<b>First Quarter 2016 Form 10-Q</b>	<b>2015 Form 10-K</b>
		<b>Disclosure Begins on Page</b>		
Scope of Application	Introduction	4		119
	Funds and Capital Transfer Restrictions	5		14, 18, 136
Capital Structure	Regulatory Capital Instruments	6	5, 73	208, Exhibit 3.1
Capital Adequacy	Capital Management and Planning	8	90, 120	13, 72
Risk Management	Overview	11	123	
Credit Risk: General Disclosures	Overview	11	88, 112, 132	77, 121
General Disclosure for Counterparty Credit Risk-related Exposures	Impact on Derivatives of Key Credit Rating Downgrade	14	57	
	Derivative Counterparty Credit Risk Exposures	14	55	
Credit Risk Mitigation	Overview	15	55, 56	
Equities Not Subject to Subpart F of this Part (the Market Risk Rule)	Overview	17	32, 47	
Interest Rate Risk for Nontrading Activities	Overview	18	124	