

# KeyCorp

## Second Quarter 2018 Earnings Review

July 19, 2018

**Beth E. Mooney**

Chairman and  
Chief Executive Officer

**Don Kimble**

Chief Financial Officer



# FORWARD-LOOKING STATEMENTS AND ADDITIONAL INFORMATION

This communication contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, but not limited to, KeyCorp's expectations or predictions of future financial or business performance or conditions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "target," "estimate," "continue," "positions," "plan," "predict," "project," "forecast," "guidance," "goal," "objective," "prospects," "possible" or "potential," by future conditional verbs such as "assume," "will," "would," "should," "could" or "may", or by variations of such words or by similar expressions. These forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made and we assume no duty to update forward-looking statements. Actual results may differ materially from current projections.

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GAAP: Generally Accepted Accounting Principles



# 2Q18 Investor Highlights

**\$0.44**

*earnings per common share*

**58.8%**

*cash efficiency ratio<sup>(a)</sup>*

**16.7%**

*return on avg. tangible  
common equity<sup>(a)</sup>*

## Driving Returns

- **EPS up 22% from PY and up 16% from PQ**
- **Positive operating leverage from both PY and PQ**
- **Net interest income stable with PY and up 4% from PQ**
  - Excluding PAA, up 8% from PY and up 4% from PQ
  - Average loan growth of 2% (from PY and PQ), driven by commercial relationships
- **Noninterest income up 1% from PY and up 10% from PQ**
  - Excluding notable items, up 5%<sup>(a)</sup> from PY and up 4%<sup>(a)</sup> from PQ
  - Strength in fee businesses: investment banking & debt placement and cards & payments
- **Expenses stable with PY and down 1% from PQ**
  - Excluding notable items, up 3%<sup>(a)</sup> from PY (reflecting acquisitions and investments) and down 4%<sup>(a)</sup> from PQ (realized cost savings and seasonal trends)

## Strong Risk Management

- **Maintained credit discipline, strong asset quality**
  - Net charge-offs to average loans of .27%; portfolios continue to perform well
  - Nonperforming loans to period-end loans of .62%

## Disciplined Capital Management

- **Increased common share dividend by 14% in 2Q18**
- **Repurchased \$126 MM<sup>(b)</sup> in common shares**
- **No objection from Federal Reserve on 2018 capital plan, which includes:**
  - 42% increase in the common share dividend, to \$0.17 per quarter in 3Q18
  - Common share repurchase program of up to \$1.225 B



(a) Non-GAAP measure; See Appendix for reconciliation

(b) Common share repurchase amount includes repurchases to offset issuances of common shares under our employee compensation plans

# Financial Review



# Financial Highlights

Continuing operations, unless otherwise noted

		2Q18	1Q18	2Q17	LQ Δ	Y/Y Δ
Profitability	EPS – assuming dilution	.44	.38	.36	16 %	22 %
	Cash efficiency ratio <sup>(a)</sup>	58.8 %	62.9 %	59.3 %	(414) bps	(56) bps
	Return on average tangible common equity <sup>(a)</sup>	16.7	14.9	13.8	184	293
Capital <sup>(b)</sup>	Common Equity Tier 1 <sup>(c)</sup>	10.12 %	9.99 %	9.91 %	13 bps	21 bps
	Tier 1 risk-based capital <sup>(c)</sup>	10.94	10.82	10.73	12	21
	Tangible common equity to tangible assets <sup>(a)</sup>	8.32	8.22	8.56	10	(24)
Asset Quality	NCOs to average loans	.27 %	.25 %	.31 %	2 bps	(4) bps
	NPLs to EOP portfolio loans <sup>(d)</sup>	.62	.61	.59	1	3
	Allowance for loan and lease losses to EOP loans	1.01	1.00	1.01	1	-

2Q18 Notable Items	\$ in MM (except per share amounts)	
		Pre-tax Impact
Sale of insurance business	\$	73
Efficiency-related expenses		(22)
Lease residual loss		(42)
<b>Total impact (pre-tax)</b>	<b>\$</b>	<b>9</b>
<b>Total impact (after-tax)</b>	<b>\$</b>	<b>2</b>

2Q17 Notable Items	\$ in MM (except per share amounts)	
		Pre-tax Impact
Merchant services gain	\$	64
Purchase accounting finalization		43
Merger-related charges		(44)
Charitable contribution		(20)
<b>Total impact (pre-tax)</b>	<b>\$</b>	<b>43</b>
<b>Total impact (after-tax)</b>	<b>\$</b>	<b>27</b>

EOP = End of Period

(a) Non-GAAP measure: see Appendix for reconciliation

(b) From consolidated operations

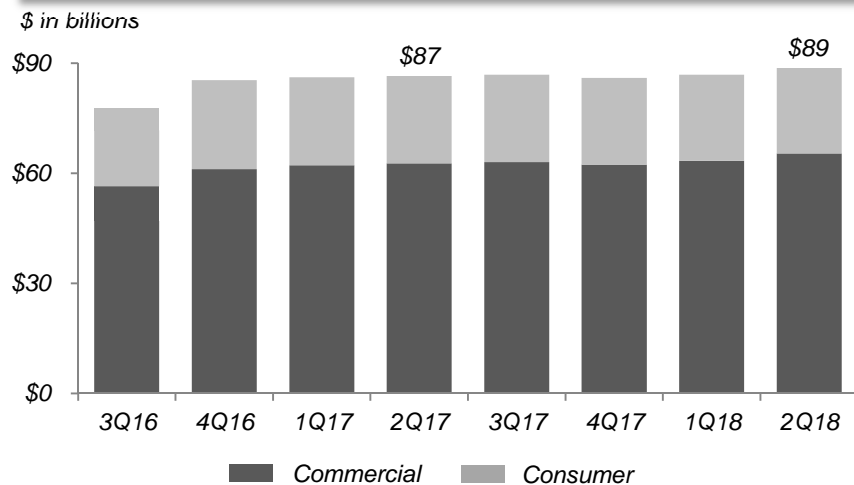
(c) 6/30/18 ratios are estimated

(d) Nonperforming loan balances exclude \$629 million, \$690 million, and \$835 million of purchased credit impaired loans at June 30, 2018, March 31, 2018, and June 30, 2017, respectively



# Loans

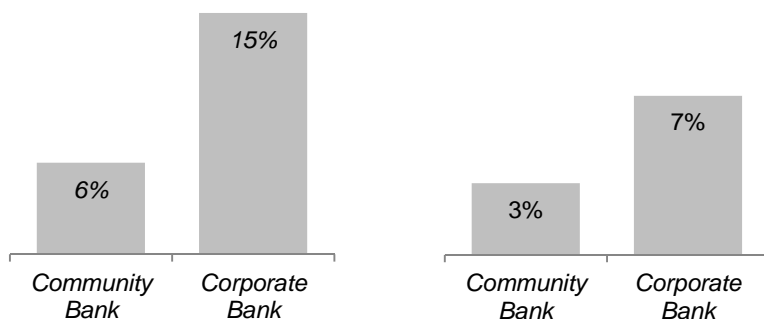
## Total Average Loans



## C&I Loans

vs. Prior Year

vs. Prior Quarter



## Highlights

vs. Prior Year

- Average loans up 2% from 2Q17
  - C&I balances up 11%
  - Broad-based growth with middle-market clients
  - CRE and home equity continue to be impacted by market trends

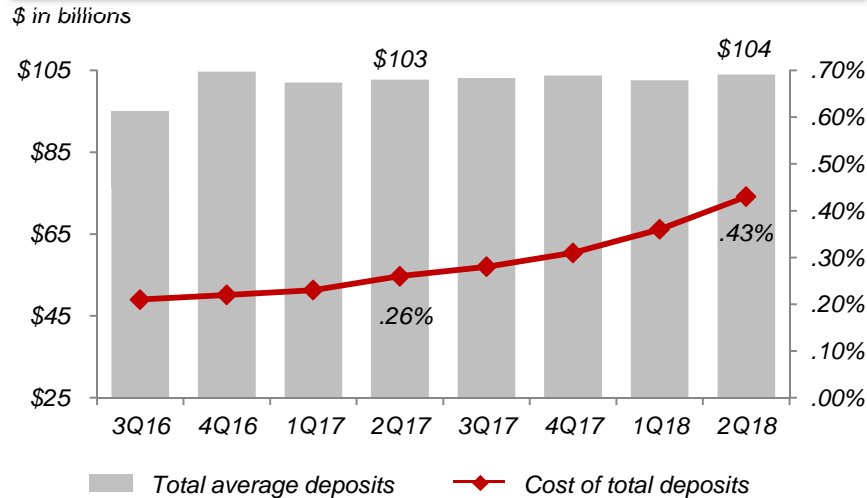
vs. Prior Quarter

- Average loans up 2% from 1Q18
  - C&I balances up 5%
  - Growth across client segments, including both Community Bank and Corporate Bank

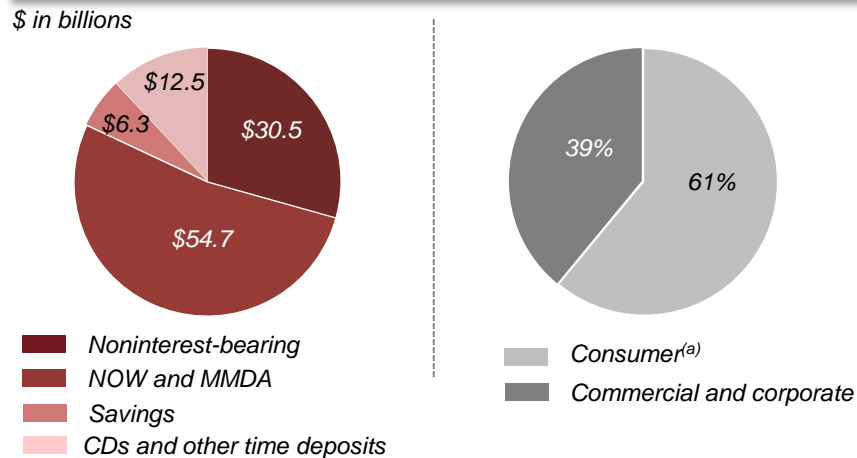


# Deposits

## Average Deposits



## 2Q18 Average Deposit Mix



(a) Consumer includes retail banking, small business, and private banking

## Highlights

- **Deposit cost up 7 bps from 1Q18, reflecting:**
  - Higher interest rates and beta
  - Continued migration of portfolio into higher-yielding products
- **Strong and stable deposit base**
  - 29% noninterest-bearing
  - >85% from markets where Key maintains top-5 deposit or branch share

### vs. Prior Year

- Average deposit up 1% from 2Q17
- Strength in retail banking franchise and growth from commercial relationships
- Continued mix shift to higher-yielding deposit products

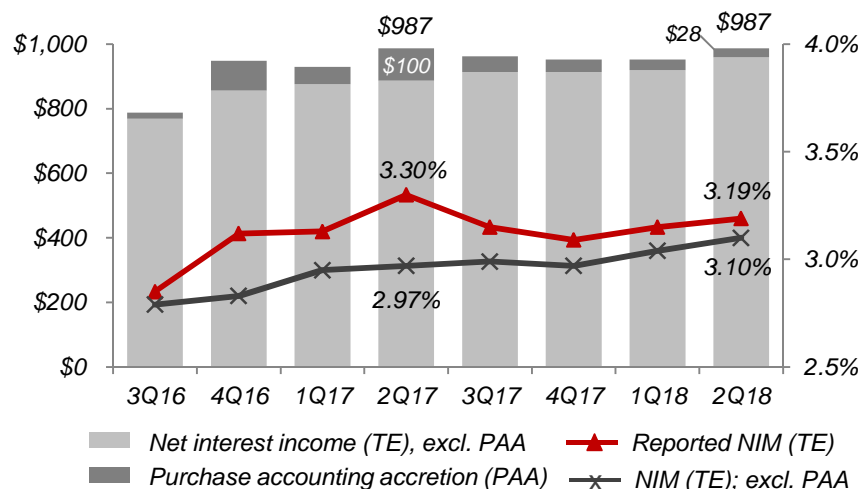
### vs. Prior Quarter

- Average deposit balances up 1% from 1Q18
- Growth from retail and commercial relationships
- Continued mix shift to higher-yielding deposit products

# Net Interest Income and Margin

## Net Interest Income & Net Interest Margin Trend (TE)

\$ in millions; continuing operations



	2Q17	3Q17	4Q17	1Q18	2Q18
<b>NIM – reported</b>	<b>3.30%</b>	<b>3.15%</b>	<b>3.09%</b>	<b>3.15%</b>	<b>3.19%</b>
PAA	.19	.16	.12	.11	.09
PAA refinement/ finalization	.14	-	-	-	-
<b>NIM – excl. PAA</b>	<b>2.97%</b>	<b>2.99%</b>	<b>2.97%</b>	<b>3.04%</b>	<b>3.10%</b>

	2Q17	3Q17	4Q17	1Q18	2Q18
<b>NII – reported (\$MM)</b>	<b>\$ 987</b>	<b>\$ 962</b>	<b>\$ 952</b>	<b>\$ 952</b>	<b>\$ 987</b>
PAA	58	48	38	33	28 <sup>(a)</sup>
PAA refinement/ finalization	42	-	-	-	-
<b>NII – excl. PAA</b>	<b>\$887</b>	<b>\$914</b>	<b>\$914</b>	<b>\$919</b>	<b>\$959</b>

## Highlights

- Excluding PAA, 2Q18 net interest income was \$959 MM and net interest margin was 3.10%

vs. Prior Year

- Net interest income up \$72 MM, or 8%, from 2Q17, excl. PAA
  - Largely driven by higher interest rates and earning asset growth

vs. Prior Quarter

- Net interest income up \$40 million, or 4%, from 1Q18, excl. PAA
  - Reflects benefit from higher interest rates, strong commercial loan growth, and day count

NIM Change vs. Prior Quarter	1Q18:	3.15%
Higher interest rates		.06
PAA (2Q vs. 1Q)		(.02)
<b>Total change</b>		<b>.04</b>
	<b>2Q18:</b>	<b>3.19%</b>



TE = Taxable equivalent

PAA = Purchase accounting accretion

(a) 2Q18 purchase accounting accretion of \$28 MM is made up of \$20 MM related to contractual maturities and \$8 MM related to prepayments



# Noninterest Income

## Noninterest Income

<i>\$ in millions</i>	<i>up / (down)</i>	<b>2Q18</b>	<b>vs. 2Q17</b>	<b>vs. 1Q18</b>
Trust and investment services income		\$ 128	\$ (6)	\$ (5)
Investment banking and debt placement fees		155	20	12
Service charges on deposit accounts		91	1	2
Operating lease income and other leasing gains		(6)	(36)	(38)
Corporate services income		61	6	(1)
Cards and payments income		71	1	9
Corporate-owned life insurance		32	(1)	-
Consumer mortgage income		7	1	-
Mortgage servicing fees		22	7	2
Other income		99	14	78
<b>Total noninterest income</b>		<b>\$ 660</b>	<b>\$ 7</b>	<b>\$ 59</b>
Notable items		36	(25)	36
<b>Total noninterest income, excluding notable items<sup>(a)</sup></b>		<b>\$ 624</b>	<b>\$ 32</b>	<b>\$ 23</b>

<b>Notable items (\$ MM)</b>	<b>2Q18</b>	<b>2Q17</b>	<b>1Q18</b>
Lease residual loss (op. lease income)	(42)	-	-
Insurance sale gain (other income)	78	-	-
Merchant services gain (other income)	-	64	-
Purchase accounting finalization (other income)	-	(3)	-
	<b>\$36</b>	<b>\$61</b>	<b>-</b>

## Highlights

### vs. Prior Year

- **Noninterest income up \$7 MM (+1%) from 2Q17**
  - Excluding notable items up \$32 MM, or 5%<sup>(a)</sup>
- **Continued momentum in fee-based businesses resulting from ongoing investments**
  - Investment banking and debt placement fees (+\$20 MM), mortgage servicing fees (+\$7 MM), corporate services (+\$6 MM)
- **Operating lease income impacted by a \$42 MM lease residual loss in 2Q18**
- **Both periods impacted by gains: 2Q18 sale of insurance business (\$78 MM); 2Q17 merchant services gain (\$64 MM)**

### vs. Prior Quarter

- **Noninterest income up \$59 MM (+10%) from 1Q18**
  - Excluding notable items up \$23 MM, or 4%<sup>(a)</sup>
- **Strength in fee based-businesses**
  - Investment banking and debt placement: +\$12 MM, or 8%
  - Cards and payments income: +\$9 MM, or 15%
- **2Q18 includes impact from sale of insurance business**
  - \$78 MM gain in other income
  - Lower trust and investment services income
- **Operating lease income impacted by a \$42 MM lease residual loss**



(a) Non-GAAP measure

# Noninterest Expense

## Noninterest Expense

<i>\$ in millions</i> up / (down)	2Q18	vs. 2Q17	vs. 1Q18
Personnel	\$ 586	\$ 33	\$ (8)
Net occupancy	79	1	1
Computer processing	51	(4)	(1)
Business services, professional fees	51	6	10
Equipment	26	(1)	-
Operating lease expense	30	9	3
Marketing	26	(4)	1
FDIC assessment	21	-	-
Intangible asset amortization	25	3	(4)
OREO expense, net	-	(3)	(2)
Other expense	98	(42)	(13)
<b>Total noninterest expense</b>	<b>\$ 993</b>	<b>\$ (2)</b>	<b>\$ (13)</b>
Notable items	27	(33)	27
<b>Total noninterest expense, excluding notable items<sup>(a)</sup></b>	<b>\$ 966</b>	<b>\$ 31</b>	<b>\$ (40)</b>

Notable items (\$ MM)	2Q18	2Q17	1Q18
Efficiency-related expenses <i>(\$18 MM personnel / \$4 MM nonpersonnel)</i>	22	-	-
Sale of insurance business <i>(\$1 MM personnel / \$4 MM nonpersonnel)</i>	5	-	-
Merger-related charges <i>(\$31 MM personnel / \$13 MM nonpersonnel)</i>	-	44	-
Charitable contribution (other expense)	-	20	-
Purchase accounting finalization (other expense)	-	(4)	-
	<b>\$27</b>	<b>\$60</b>	<b>-</b>

### vs. Prior Year

- **Noninterest expense relatively stable**
  - Excluding notable items up \$31 MM, or 3%<sup>(a)</sup>
- **Reflects acquisitions (Cain Brothers and HelloWallet) as well as the addition of client-facing roles and investment in our residential mortgage business**
- **Realization of merger cost savings and lower notable items offset growth from acquisitions and investments**

### vs. Prior Quarter

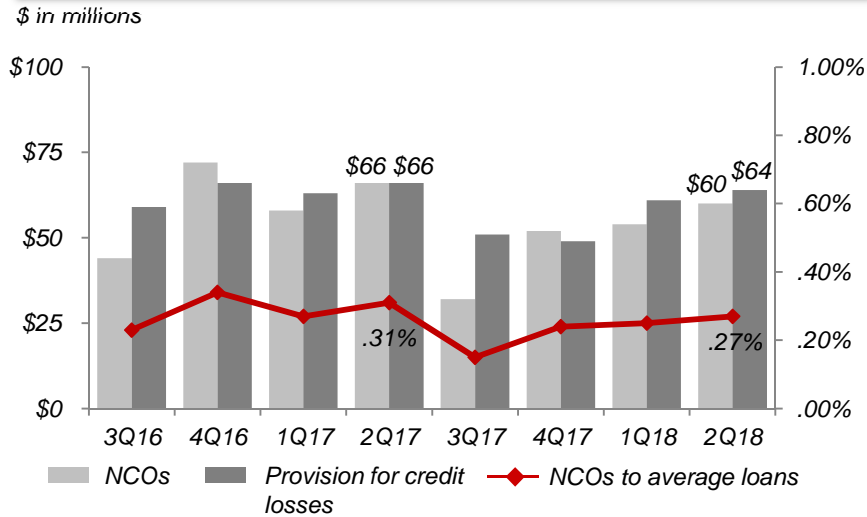
- **Noninterest expense down \$13 MM, or 1%**
  - Excluding notable items down \$40 MM, or 4%<sup>(a)</sup>
- **Reported personnel expense down \$8 MM, including \$19 MM in 2Q18 from severance and the insurance sale → personnel down \$27 MM excluding these items**
  - Benefits expense down \$23 MM



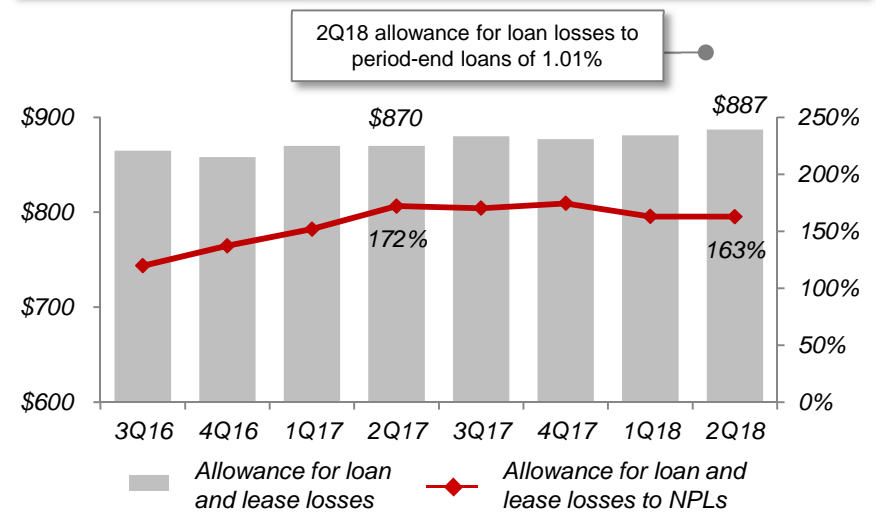
(a) Non-GAAP measure

# Credit Quality

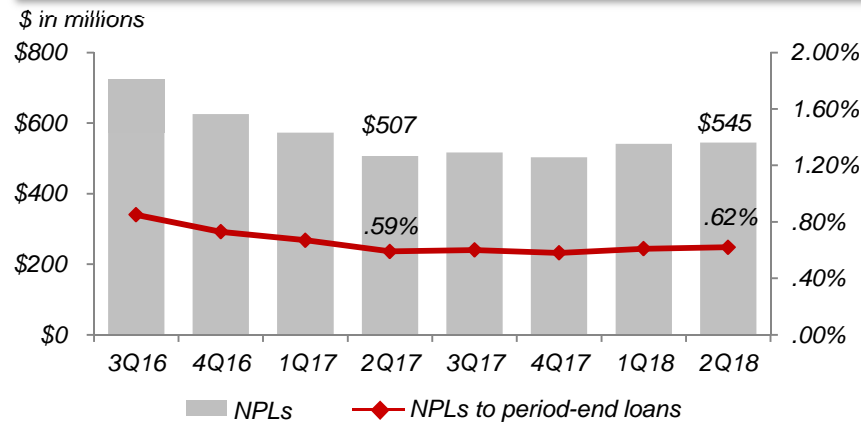
## Net Charge-offs & Provision for Credit Losses



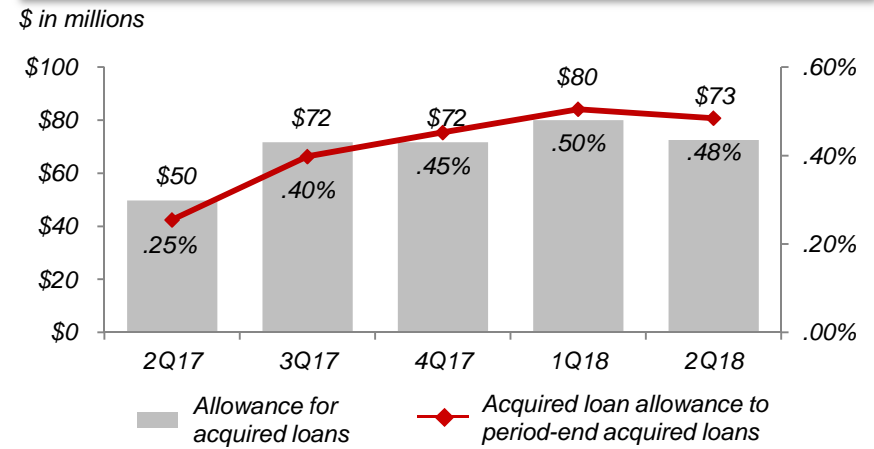
## Allowance for Loan and Lease Losses



## Nonperforming Loans<sup>(a)</sup>



## Acquired Loans

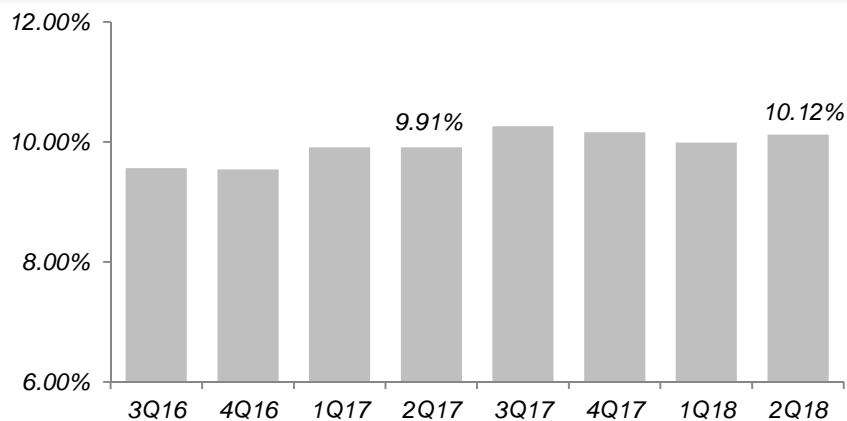


NCO = Net charge-off

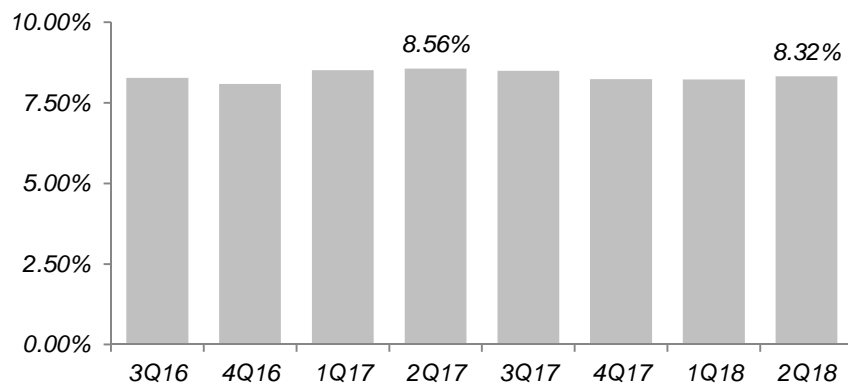
(a) Nonperforming loan balances exclude \$629 million and \$835 million of purchased credit impaired loans at June 30, 2018, and June 30, 2017, respectively

# Capital

## Common Equity Tier 1<sup>(a)</sup>



## Tangible Common Equity to Tangible Assets<sup>(b)</sup>



## Highlights

- **Strong capital position with Common Equity Tier 1 ratio of 10.12%<sup>(a)</sup> at 6/30/18**
- **Increased common share dividend by 14% (to \$0.12 per quarter) and repurchased \$126 MM<sup>(c)</sup> in common shares during 2Q18**

## 2018 Capital Plan

- **Common share dividend increase: up 42%, from \$0.12 to \$0.17, in 3Q18**
- **Common share repurchase authorization: up to \$1.225 billion**



(a) 6/30/18 ratios are estimated

(b) Non-GAAP measure: see Appendix for reconciliation

(c) Common share repurchase amount includes repurchases to offset issuances of common shares under our employee compensation plans

# Outlook and Expectations

FY 2018	
Average Balance Sheet	<ul style="list-style-type: none"> <li>Loans: average balances in the range of \$88.5 B - \$89.5 B</li> <li>Deposits: average balances in the range of \$104.5 B - \$105.5 B</li> </ul>
Net Interest Income (TE)	<ul style="list-style-type: none"> <li>Net interest income expected to be in the range of \$3.95 B - \$4.05 B</li> <li>Outlook includes rate increase in November 2018</li> </ul>
Noninterest Income	<ul style="list-style-type: none"> <li>Expected to be in the range of \$2.5 B - \$2.6 B</li> </ul>
Noninterest Expense	<ul style="list-style-type: none"> <li>Expected to be in the range of \$3.85 B - \$3.95 B</li> </ul>
Credit Quality	<ul style="list-style-type: none"> <li>Net charge-offs to average loans below targeted range of 40 – 60 bps</li> <li>Provision expected to slightly exceed net charge-offs to provide for loan growth</li> </ul>
Taxes	<ul style="list-style-type: none"> <li>GAAP tax rate in the range of 17% - 18%</li> </ul>

## Long-term Targets

**Positive operating leverage**

**Cash efficiency ratio:**  
54%-56%

**Moderate risk profile:**  
Net charge-offs to avg. loans  
targeted range of 40-60 bps

**ROTCE:**  
15-18%



# Appendix



## 2Q18 Notable Items

<i>\$ in millions increase / (decrease)</i>	<b>Sale of insurance business</b>	<b>Efficiency- related expenses</b>	<b>Lease residual loss</b>	<b>Total</b>
<b>Net interest income</b>	-	-	-	-
Operating lease income and other leasing gains	-	-	\$ (42)	\$ (42)
Other income	\$ 78	-	-	78
<b>Noninterest income</b>	<b>\$ 78</b>	<b>-</b>	<b>\$ (42)</b>	<b>\$ 36</b>
<b>Personnel expense</b>	<b>\$ 1</b>	<b>\$ 18</b>	<b>-</b>	<b>\$ 19</b>
Net occupancy	-	\$ 3	-	\$ 3
Business services and professional fees	\$ 4	-	-	4
Computer processing	-	-	-	-
Marketing	-	-	-	-
All other nonpersonnel	-	1	-	1
<b>Total nonpersonnel expense</b>	<b>\$ 4</b>	<b>\$ 4</b>	<b>-</b>	<b>\$ 8</b>
<b>Total notable items (pre-tax)</b>	<b>\$ 73</b>	<b>\$ (22)</b>	<b>\$ (42)</b>	<b>\$ 9</b>
<b>Total notable items (after-tax)</b>	<b>\$ 51</b>	<b>\$ (17)</b>	<b>\$ (32)</b>	<b>\$ 2</b>



# Loan Portfolio Detail, at 6/30/18

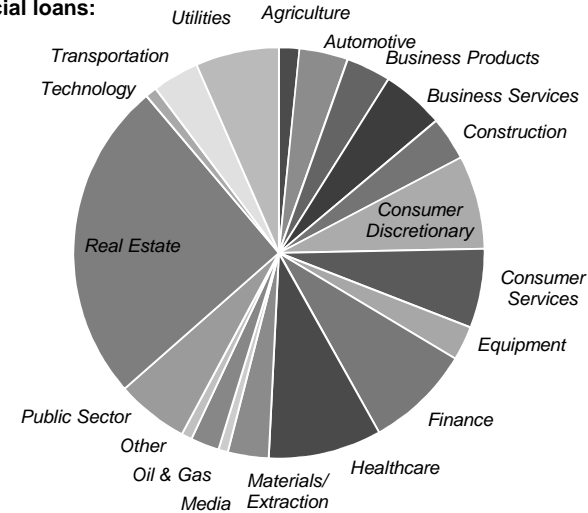
## Total Loans

\$ in billions	6/30/18	% of total loans
Commercial and industrial	\$ 44.6	51
Commercial real estate	15.9	18
Commercial lease financing	4.5	5
<b>Total Commercial</b>	<b>\$ 65.0</b>	<b>74</b>
Residential mortgage	\$ 5.5	6
Home equity	11.5	13
Consumer direct	1.8	2
Credit card	1.1	1
Consumer indirect	3.4	4
<b>Total Consumer</b>	<b>\$ 23.2</b>	<b>26</b>

## Commercial Loans

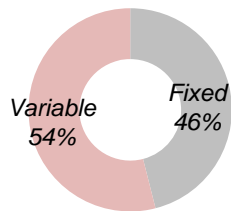
### Diversified Portfolio by Industry

Total commercial loans:



## Home Equity

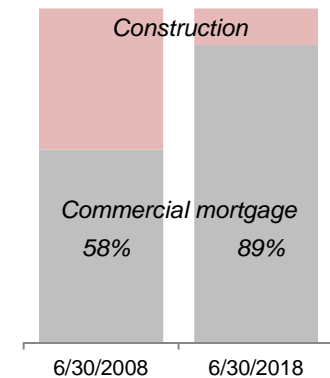
	Outstanding Balances	Average Loan Size	Average FICO	2008/prior vintage
First lien	\$ 6,879 60%	\$ 71,798	772	18%
Second lien	4,640 40	46,324	769	32
<b>Total home equity</b>	<b>\$ 11,519</b>			



- Combined weighted-average LTV at origination: 70%
- \$560 million in lines outstanding (7% of the home equity lines) come to end of draw period by 2Q20

## Commercial Real Estate

- Focused on relationships with CRE owners
- Aligned with targeted industry verticals
- Primarily commercial mortgage; selective approach to construction
- Criticized non-accruals: 0.3% of period-end balances<sup>(a)</sup>



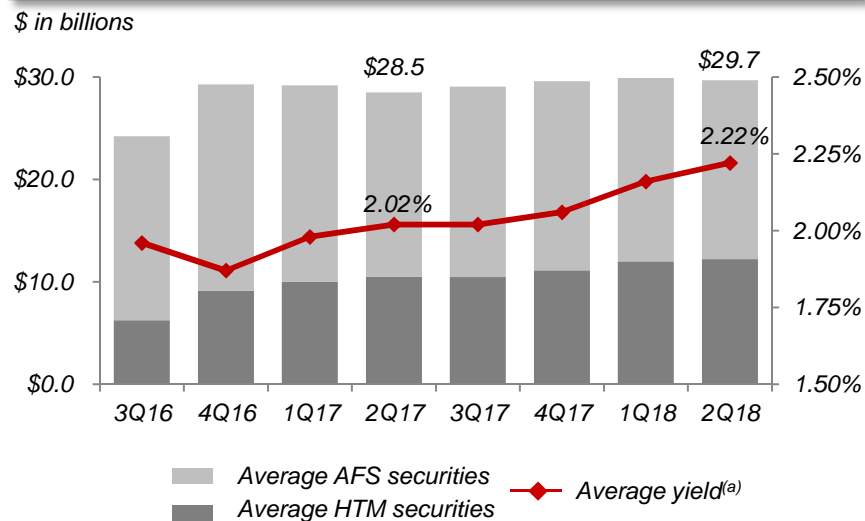
Tables may not foot due to rounding

(a) Loan and lease outstandings; excludes purchase credit impaired loans from the First Niagara acquisition

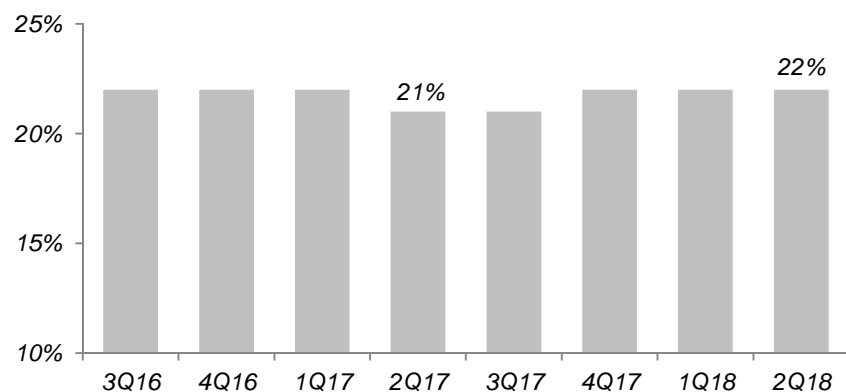


# Investment Portfolio

## Average Total Investment Securities



## Securities to Total Assets<sup>(b)</sup>



## Highlights

- Portfolio composed primarily of GNMA and GSE-backed MBS and CMOs
  - Primarily fixed rate
  - GNMA 46% of 2Q18 average balances
- Portfolio used for funding and liquidity management:
  - Securities cash flows of \$1.2 billion in 2Q18
  - Reinvesting cash flows into High Quality Liquid Assets
- Replaced cash flows at higher yields during 2Q18
  - Yield on new investments ~125 bps higher than maturities
  - Portfolio yield has increased 20 bps from prior year and 35 bps from the post-FNFG acquisition low in 4Q16
- Portfolio average life of 4.9 years and duration of 4.2 years at 6/30/18



(a) Yield is calculated on the basis of amortized cost  
 (b) Includes end-of-period held-to-maturity and available-for-sale securities

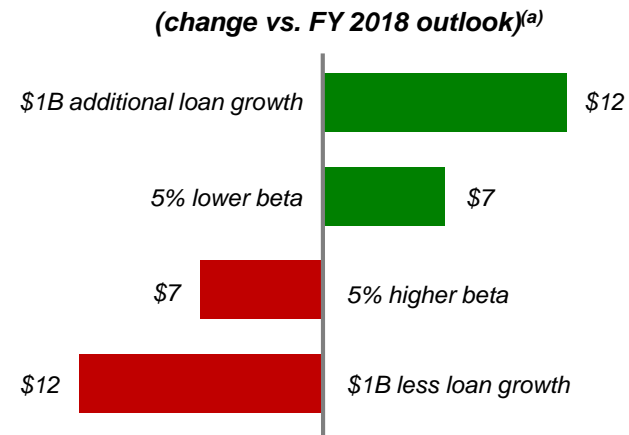
# Asset & Liability Management Positioning

The strength and diversity of our franchise positions Key to benefit from economic growth and a rising rate environment

## Business and Balance Sheet Highlights

- **Strong, low-cost deposit base**
  - \$73 B interest-bearing deposits at 61 bps
  - \$31 B noninterest-bearing deposits
  - ~65% stable retail and low-cost escrow
  - > 85% from markets where Key maintains top-5 deposit or branch share
  - \$88 MM deposits per branch, up 20% vs. pre-FNFG
  - Payments investments drive commercial deposit growth
- **Relationship-oriented lending franchise**
  - Distinctive commercial capabilities drive C&I loan growth and ~70% floating-rate loan mix
  - Recent investments in residential mortgage and auto lending enhance Key's growth trajectory and balance our ALM position
- **Disciplined balance sheet management with recurring re-investment opportunities**
  - \$30 B securities portfolio is >99% government-guaranteed and generates ~\$400 MM cash flows per month
  - Discretionary hedge activities (~\$18.7 B) help moderate interest rate risk exposure while providing near-term earnings upside (\$2.8 B swaps mature through 4Q18 at weighted-average receive rate of 1.10%)

## Net Interest Income Sensitivities (FY18) (\$MM)



- **Modestly asset sensitive positioning<sup>(b)</sup>**

- NII impact of 1%-3% for a 200 bps increase over 12 months
  - Reflects a deposit repricing beta that ramps to ~55%
  - Each 25 bps increase in the Fed Funds rate results in NII benefit of ~\$4-8MM per quarter



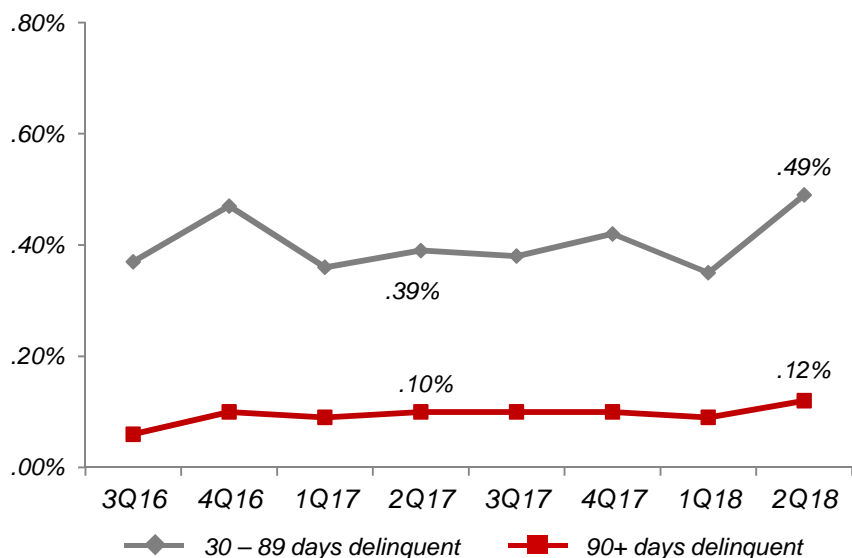
(a) Outlook and Expectations for FY 2018 is as described on page 13 of this presentation and assumes market forward interest rates as of December 2017 and deposit betas increasing modestly from recent levels.

(b) Simulation analysis for net interest income is described in Figure 31 of Key's 2017 Form 10-K

# Credit Quality Trends

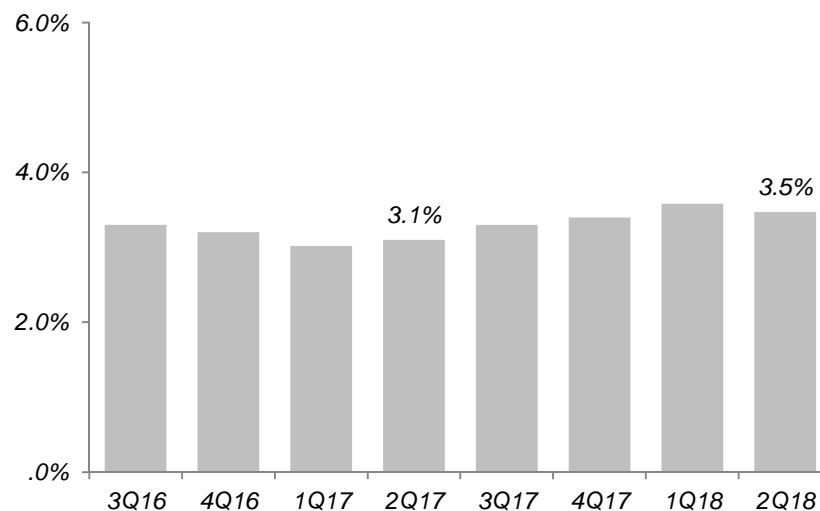
## Delinquencies to Period-end Total Loans

Continuing operations



## Criticized Outstandings<sup>(a)</sup> to Period-end Total Loans

Continuing operations



Metric <sup>(b)</sup>	2Q18	1Q18	4Q17	3Q17	2Q17
Delinquencies to EOP total loans: 30-89 days	.49	.35	.42	.38	.39 %
Delinquencies to EOP total loans: 90+ days	.12	.09	.10	.10	.10
NPLs to EOP portfolio loans <sup>(c)</sup>	.62	.61	.58	.60	.59
NPAs to EOP portfolio loans + OREO + Other NPAs <sup>(c)</sup>	.65	.65	.62	.64	.64
Allowance for loan losses to period-end loans	1.01	1.00	1.01	1.02	1.01
Allowance for loan losses to NPLs	162.8	162.8	174.4	170.2	171.6

(a) Loan and lease outstandings; excludes purchase credit impaired loans from the First Niagara acquisition

(b) From continuing operations

(c) Nonperforming loan balances exclude \$629 million, \$690 million, \$738 million, \$783 million, and \$835 million of purchased credit impaired loans at June 30, 2018, March 31, 2018, December 31, 2017, September 30, 2017, and June 30, 2017, respectively



# Credit Quality

## Credit Quality by Portfolio

\$ in millions	Period-end loans	Average loans	Net loan charge-offs	Net loan charge-offs <sup>(b)</sup> / average loans (%)	Nonperforming loans <sup>(c)</sup>	Ending allowance <sup>(d)</sup>	Allowance / period-end loans <sup>(d)</sup> (%)	Allowance / NPLs (%)
	6/30/18	2Q18	2Q18	2Q18	6/30/18	6/30/18	6/30/18	6/30/18
Commercial and industrial <sup>(a)</sup>	\$ 44,569	\$ 45,030	\$ 32	0.29%	\$ 178	\$ 542	1.22%	304.49%
Commercial real estate:								
Commercial Mortgage	14,162	14,055	1	.03	42	139	.98	330.95
Construction	1,736	1,789	-	-	2	28	1.61	N/M
Commercial lease financing <sup>(e)</sup>	4,509	4,550	4	.35	21	40	.89	190.48
Real estate – residential mortgage	5,452	5,451	-	-	55	10	.18	18.18
Home equity	11,519	11,601	3	.10	222	37	.32	16.67
Credit cards	1,094	1,080	10	3.71	2	46	4.20	N/M
Consumer direct loans	1,785	1,768	7	1.59	4	26	1.46	650.00
Consumer indirect loans	3,396	3,320	3	.36	19	19	.56	100.00
<b>Continuing total</b>	<b>\$ 88,222</b>	<b>\$ 88,644</b>	<b>\$ 60</b>	<b>.27%</b>	<b>\$ 545</b>	<b>\$ 887</b>	<b>1.01%</b>	<b>162.75%</b>
Discontinued operations	1,194	1,217	2	.66	6	14	1.17	233.33
<b>Consolidated total</b>	<b>\$ 89,416</b>	<b>\$ 89,861</b>	<b>\$ 62</b>	<b>.28%</b>	<b>\$ 551</b>	<b>\$ 901</b>	<b>1.01%</b>	<b>163.52%</b>

N/M = Not meaningful

(a) 6/30/18 ending loan balance includes \$128 million of commercial credit card balances; average loan balance includes \$126 million of assets from commercial credit cards

(b) Net loan charge-off amounts are annualized in calculation

(c) 6/30/18 NPL amount excludes \$629 million of purchased credit impaired loans

(d) 6/30/18 allowance by portfolio is estimated

(e) Commercial lease financing includes receivables held as collateral for a secured borrowing of \$16 million at June 30, 2018. Principal reductions are based on the cash payments received from these related receivables



# GAAP to Non-GAAP Reconciliation

\$ in millions	Three months ended		
	6/30/2018	3/31/2018	6/30/17
<b>Average tangible common equity</b>			
Average Key shareholders' equity (GAAP)	\$ 15,032	\$ 14,889	\$ 15,200
Less: Intangible assets (average) <sup>(a)</sup>	2,883	2,916	2,756
Preferred Stock (average)	1,025	1,025	1,025
Average tangible common equity (non-GAAP)	<u>\$ 11,124</u>	<u>\$ 10,948</u>	<u>\$ 11,419</u>
<b>Return on average tangible common equity from continuing operations</b>			
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$ 464	\$ 402	\$ 393
Average tangible common equity (non-GAAP)	11,124	10,948	11,419
Return on average tangible common equity from continuing operations (non-GAAP)	16.73%	14.89%	13.80%
<b>Tangible common equity to tangible assets at period end</b>			
Key shareholders' equity (GAAP)	\$ 15,100	\$ 14,944	\$ 15,253
Less: Intangible assets <sup>(a)</sup>	2,858	2,902	2,866
Preferred Stock <sup>(b)</sup>	1,009	1,009	1,009
Tangible common equity (non-GAAP)	<u>\$ 11,233</u>	<u>\$ 11,033</u>	<u>\$ 11,378</u>
Total assets (GAAP)	\$ 137,792	\$ 137,049	\$ 135,824
Less: Intangible assets <sup>(a)</sup>	2,858	2,902	2,866
Tangible common equity to tangible assets ratio (non-GAAP)	<u>\$ 134,194</u>	<u>\$ 134,147</u>	<u>\$ 132,958</u>
Tangible common equity to tangible assets ratio (non-GAAP)	8.32%	8.22%	8.56%
<b>Cash efficiency ratio</b>			
Noninterest expense (GAAP)	\$ 993	\$ 1,006	\$ 995
Less: Intangible asset amortization	25	29	22
Adjusted noninterest expense (non-GAAP)	<u>\$ 968</u>	<u>\$ 977</u>	<u>\$ 973</u>
Net interest income (GAAP)	\$ 979	\$ 944	\$ 973
Plus: Taxable-equivalent adjustment	8	8	14
Noninterest income	660	601	653
Adjusted total taxable-equivalent revenue (non-GAAP)	<u>\$ 1,647</u>	<u>\$ 1,553</u>	<u>\$ 1,640</u>
Cash efficiency ratio (non-GAAP)	58.8%	62.9%	59.3%
<b>Noninterest income excluding notable items</b>			
Noninterest income	\$ 660	\$ 601	\$ 653
Less: Notable items <sup>(c)</sup>	36	-	61
Noninterest income excluding notable items (non-GAAP)	<u>\$ 624</u>	<u>\$ 601</u>	<u>\$ 592</u>
<b>Noninterest expense excluding notable items</b>			
Noninterest expense (GAAP)	\$ 993	\$ 1,006	\$ 995
Less: Notable items <sup>(c)</sup>	27	-	60
Noninterest expense excluding notable items (non-GAAP)	<u>\$ 966</u>	<u>\$ 1,006</u>	<u>\$ 935</u>

(a) For the three months ended June 30, 2018, March 31, 2018, and June 30, 2017, intangible assets exclude \$20 million, \$23 million, and \$33 million, respectively, of period-end purchased credit card receivables

(b) Net of capital surplus

(c) Notable item detail on slides 5 & 15

