KeyCorp
Basel III Pillar 3 Regulatory Capital Disclosures
For the Quarterly Period Ended September 30, 2018

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Terminology

Throughout this discussion, references to “Key” 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.

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 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;
- Key’s concentrated credit exposure in commercial and industrial loans;
- the extensive regulation of the U.S. financial services industry;
- changes in accounting policies, standards, and interpretations;
- operational or risk management failures by Key or critical third parties;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- negative outcomes from claims or litigation;
- failure or circumvention of Key’s controls and procedures;
- the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;
- evolving capital and liquidity standards under applicable regulatory rules;
- disruption of the U.S. financial system;
- KeyCorp’s ability to receive dividends from KeyCorp’s subsidiary, KeyBank;
- unanticipated changes in Key’s liquidity position, including but not limited to, changes in Key’s access to or the cost of funding and our ability to secure alternative funding sources;
- downgrades in Key’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;
- tax reform and other changes in tax laws, including the impact of the Tax Cuts and Jobs Act;
- Key’s ability to attract and retain talented executives and employees and to manage Key’s reputational risks;
- Key’s ability to timely and effectively implement Key’s strategic initiatives;
- increased competitive pressure from banks and non-banks;
- Key’s ability to adapt Key’s products and services to industry standards and consumer preferences;
- unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses;
- Key’s ability to realize the anticipated benefits of the First Niagara merger; and
- Key’s ability to develop and effectively use the quantitative models Key relies upon in Key’s 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 2017 Form 10-K and any subsequent reports filed with the SEC by Key (including its report on Form 10-Q for the quarter ended September 30, 2018) as well as Key's registration statements under the Securities Act of 1933, as amended, all of which are or will upon filing be accessible on the SEC's website at www.sec.gov and on Key's website at 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 $138.8 billion and shareholders' equity of $15.2 billion at September 30, 2018. KeyCorp is the parent holding company for KeyBank, its principal subsidiary, through which most of its banking services are provided. Key has two major business segments: Key Community Bank and Key Corporate Bank.

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

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

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 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, 2017 ("2017 Form 10-K"), and KeyCorp's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 ("Third Quarter 2018 Form 10-Q"), which has been filed with the U.S. Securities and Exchange Commission ("SEC"). The table appearing on page 23 of this report provides references to those pages of the Form 10-K and Form 10-Q that set forth information required under the Pillar 3 disclosures.

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 100 of Key's 2017 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 2017 Form 10-K and Third Quarter 2018 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 Third Quarter 2018 Form 10-Q includes more information about non-GAAP financial measures, including reconciliations to the most directly comparable GAAP measures. Key's historical SEC and regulatory filings are located in the Investor Relations section of its website at 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. On September 27, 2017, the federal banking agencies issued a joint proposal to simplify certain aspects of the Regulatory Capital Rules for standardized approach banking organizations (the "Simplification Proposal"), including Key. In anticipation of the Simplification Proposal, on August 22, 2017, the agencies issued a proposal to extend the current capital treatment for certain items that are part of the Simplification Proposal and also subject to the multiyear transition period for the Regulatory Capital Rules, which ends on December 31, 2018 (the "Transitions Proposal"). The Transitions Proposal was published as a final rule in the Federal Register on November 21, 2017, and is expected to alleviate the burden that would have resulted from the continued phase-in of those capital requirements as the agencies seek public comment on and work to finalize the Simplification Proposal.

In December 2017, the Basel Committee released its final revisions to Basel III. The revisions seek to restore credibility in the calculation of risk-weighted assets ("RWAs") and improve the comparability of regulatory capital ratios across banking organizations by: (1) enhancing the robustness and risk-sensitivity of the standardized approach for credit risk, credit valuation adjustment, and operational risk; (2) constraining the use of internal models by placing limits on certain inputs used to calculate capital requirements under the internal ratings-based approach for credit risk (used by advanced approaches banking organizations) and removing the ability to use an internal model for purposes of determining the capital charge for credit valuation adjustment ("CVA") risk and operational risk; (3) introducing a leverage ratio buffer to further limit the leverage of global systemically-important banks; and (4) replacing the existing Basel II output floor with a more robust, risk-sensitive floor based on the Basel III standardized approach.

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

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

In April 2018, the federal banking agencies released a joint proposal to amend their Regulatory Capital Rules to address the regulatory capital effects of forthcoming changes to GAAP set forth in Accounting Standards Update No. 2016-13, Topic 326, Financial Instruments - Credit Losses (ASU 2016-13), which introduces the current expected credit losses methodology. The proposal identifies which credit loss allowances under the new accounting standard would be eligible for inclusion in a banking organization’s regulatory capital and provides banking organizations with the option to phase in over a three-year period the adverse day-one regulatory capital effects of adoption of the new accounting standard on retained earnings, deferred tax assets, credit loss allowances, and average total consolidated assets. For SEC reporting companies, the new accounting standard will become effective for the first fiscal year starting after December 15, 2019. The banking agencies’ proposal was published in the Federal Register on May 14, 2018, with a 60-day public comment period that ended on July 13, 2018.

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 4 (“Restrictions on Cash, Dividends, and Lending Activities”) on page 117, all in Key’s 2017 Form 10-K.

Compliance with Capital Requirements

At September 30, 2018, 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 September 30, 2018.

CAPITAL STRUCTURE

Regulatory Capital Instruments

Key’s qualifying regulatory capital instruments consist of common stock, noncumulative perpetual 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 52 of Key’s Third Quarter 2018 Form 10-Q.

KeyCorp noncumulative perpetual preferred stock ranks senior to KeyCorp common stock. Generally, for each series of preferred 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 or redeemed, 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 section of KeyCorp’s articles of incorporation. For additional terms and conditions of Key’s outstanding preferred stock, see Note 17 (“Shareholders' Equity”) on page 97 of Key’s Third Quarter 2018 Form 10-Q, Exhibit 3.1 (“Second Amended and Restated Articles of Incorporation of KeyCorp, effective August 1, 2016”), Exhibit 3.2 (“Amendment to Second Amended and Restated Articles of Incorporation of KeyCorp, effective September 7, 2016”), Exhibit 3.3 (“Amendment to Second Amended and Restated Articles of Incorporation of KeyCorp, effective December 8, 2016”), Exhibit 3.4 (“Second Amended and Restated Regulations of KeyCorp, effective March 23, 2016”), Exhibit 4.1 (“Form of Certificate representing Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series D”), Exhibit 4.4 (“Form of Certificate representing Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series E”) in Key’s 2017 Form 10-K, and Exhibit 4.1 (“Certificate of Amendment of the Company with respect to Fixed Rate Perpetual Non-Cumulative Preferred Stock, Series F, filed July 26, 2018”) and Exhibit 4.2 (“Form of Certificate representing Fixed Rate Perpetual Non-Cumulative Preferred Stock, Series F”) in Key’s Form 8-K filed on July 30, 2018.

The Basel III Regulatory Capital Rules require us to treat Key's trust preferred securities as Tier 2 capital. 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 92 of Key’s Third Quarter 2018 Form 10-Q.

For terms and conditions of Key’s outstanding subordinated debt, see Note 20 (“Long-Term Debt”) beginning on page 174 of Key’s 2017 Form 10-K and “Liquidity Risk Management” beginning on page 42 of Key’s Third Quarter 2018 Form 10-Q.

Regulatory Capital Tiers

The following table presents Key's Common Equity Tier 1, Tier 1 Capital, Tier 2 Capital, and Total Capital at September 30, 2018. For more information on Key's regulatory capital tiers, see Schedule HC-R, "Regulatory Capital" in Key's FR Y-9C.

in millions	September 30, 2018
COMMON EQUITY TIER 1	
Common stock and related surplus	$ 3,691
Retained earnings	11,262
Common equity minority interest	—
Accumulated other comprehensive income (loss)	(1,166)
Common Equity Tier 1 capital before adjustments and deductions	13,787
Adjustments and deductions from Common Equity Tier 1 Capital	
Less: Goodwill, net of deferred taxes	2,460
Intangible assets, net of deferred taxes	267
Deferred tax assets	27
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(599)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(220)
Amounts in accumulated other comprehensive income (loss) attributed to pension and postretirement benefit costs, net of deferred taxes	(383)
Total Common Equity Tier 1 Capital	12,235
TIER 1 CAPITAL	
Additional Tier 1 capital instruments and related surplus	1,421
Tier 1 minority interest not included in Common Equity Tier 1 Capital	—
Additional Tier 1 capital before deductions	1,421
Less: Tier 1 capital deductions	—
Additional Tier 1 capital	1,421
Total Tier 1 capital	13,656
TIER 2 CAPITAL	
Tier 2 capital instruments and related surplus	1,344
Total capital minority interest not included in Tier 1 capital	—
Allowance for losses on loans and liability for losses on lending-related commitments	962
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	—
Tier 2 capital before deductions	2,306
Less: Tier 2 capital deductions	—
Total Tier 2 capital	2,306
Total risk-based capital	$ 15,962

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 section titled "Capital planning and stress testing" and "Capital adequacy" beginning on pages 13, and 36, respectively, of Key's Third Quarter 2018 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 on a pro forma basis under expected and stressful conditions throughout the planning horizon.

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 and maintain regulatory capital in an amount that is sufficient to withstand a severely adverse operating environment and, at the same time, be able to continue operations, maintain ready access to funding, meet obligations to creditors and counterparties, and provide credit intermediation.

On January 30, 2017, the Federal Reserve released a final rule to revise the capital plan and stress test rules as they apply to large, noncomplex BHCs and U.S. intermediaries of foreign banks. Under the final rule, a large noncomplex BHC is one with total consolidated assets of more than $50 billion but less than $250 billion, and nonbank assets of less than $75 billion ("covered BHCs"). This includes KeyCorp.

Specifically, the final rule relieves covered BHCs from the qualitative assessment portion of the Federal Reserve's CCAR program and modifies the reporting requirements for these organizations by reducing the reporting requirements applicable to covered BHCs under the FR Y-14A and by raising the materiality thresholds for specific portfolio reporting requirements.

The final rule also limits the amount of capital a covered BHC is authorized to distribute in excess of the amount set forth in its capital plan without Federal Reserve approval (the "de minimis exception"), and establishes a one-quarter blackout period during which a BHC is not permitted to submit a notice to use the de minimis exception or seek prior approval to make a capital distribution in an amount that exceeds the de minimis exception level. If exigent circumstances arise during the blackout period that require a capital distribution, a covered BHC may resubmit its capital plan and request expedited review from the Federal Reserve; however, the Federal Reserve is not required to expedite the review process.

The final rule also requires covered BHCs to measure nonbank assets on a monthly basis and report the monthly average to the Federal Reserve on a quarterly basis beginning March 31, 2017.

On December 7, 2017, the Federal Reserve released for public comment a package of proposals that would increase the transparency of its stress testing program while maintaining the Federal Reserve's ability to test the resilience of the nation's largest, most complex banks. The proposals responded to public and industry calls for more transparency around the CCAR program. The proposals are discussed in more detail in Item 1. Business on page 13 of Key's 2017 Form 10-K under the heading "Supervision and Regulation — Regulatory capital requirements — Recent developments in capital planning and stress testing."

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

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

On October 31, 2018, the federal banking agencies issued two Notices of Proposed Rulemaking related to the implementation of Economic Growth, Regulatory Relief, and Consumer Protection Act. The proposed rules would establish four risk-based categories of institutions and apply tailored capital and liquidity requirements for each respective category. Based on Key’s analysis of the proposal, KeyCorp would fall into the least restrictive of those categories. Key is assessing the full extent of the impact to Key.

KeyCorp is also subject to the Federal Reserve’s supervisory expectations for capital planning and capital positions as a large, noncomplex BHC as set forth in the Federal Reserve’s guidance document 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 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 September 30, 2018. For more information on Key's risk-weighted assets, see Schedule HC-R, "Regulatory Capital" in Key's FR Y-9C. For more information on Key's market risk-weighted assets, including Key's market risk management practices, see the "Market Risk Management" section beginning on page 38 of Key's Third Quarter 2018 Form 10-Q.

dollars in millions	September 30, 2018
RISK-WEIGHTED ASSETS [a]	
On-balance sheet	
Exposures to depository institutions, foreign banks, and credit unions	$ 285
Exposures to government-sponsored enterprises	3,505
Exposures to public sector entities	1,645
Corporate exposures	62,016
Statutory multifamily mortgages and pre-sold construction loans	190
Residential mortgage exposures	10,882
Other retail exposures	7,261
High volatility commercial real estate	1,444
Past due loans	703
Other assets	7,871
Securitization exposures	68
Equity exposures	2,330
Total on-balance sheet exposures	98,200
Off-balance sheet and market risk	
Unused commitments with an original maturity of less than one year	1,641
Unused commitments with an original maturity of more than one year	16,758
Derivatives	747
Letters of credit	2,350
All other off balance sheet liabilities	2,229
Market risk-weighted assets	983
Total off-balance sheet and market risk exposures	24,708
Total risk-weighted assets	$ 122,908
Total assets for the leverage ratio	$ 136,201
CAPITAL RATIOS	
Common Equity Tier 1	9.95%
Tier 1 risk-based capital	11.11
Total risk-based capital	12.99
Tier 1 leverage	10.03

(a) This table does not present the quantitative disclosures required under the capital rules for any exposure category with respect to which Key has no related activity.

The table below lists KeyBank's Common Equity Tier 1 capital ratio, Tier 1 risk-based capital ratio, Total risk-based capital ratio, and Tier 1 leverage ratio at September 30, 2018.

	September 30, 2018
Common Equity Tier 1	11.22%
Tier 1 risk-based capital	11.22
Total risk-based capital	12.76
Tier 1 leverage	10.09

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 September 30, 2018.

dollars in millions		September 30, 2018
Capital conservation buffer [(a)]		4.99%
Eligible retained income [(b)]	$	281
Limitations on distributions and discretionary bonus payments under the capital conservation buffer framework [(c)]		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 at September 30, 2018, 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 2017 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 to ensure 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 67 of Key's 2017 Form 10-K.

CREDIT RISK: GENERAL DISCLOSURES

Overview

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

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

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 101 and "Credit risk management" beginning on page 76 all in Key's 2017 Form 10-K. 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 66 of Key's 2017 Form 10-K. For information on the balance in the allowance for loan and lease losses at the end of each period, disaggregated on the basis of Key's impairment method, see Note 4 ("Asset Quality") beginning on page 61 of Key's Third Quarter 2018 Form 10-Q. For information on Key's security portfolio, see Note 6 ("Securities") beginning on page 77 of Key's Third Quarter 2018 Form 10-Q. For information on Key's derivatives portfolio, see Note 7 ("Derivatives and Hedging Activities") beginning on page 79 of Key's Third Quarter 2018 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 September 30, 2018.

September 30, 2018 *in millions*	**Total Loans**	**90 and Greater Days Past Due Nonperforming**	**90 and Greater Days Past Due Accrual**	**Total Past Due and Nonperforming Loans**
LOAN TYPE				
Commercial and industrial	$ 45,023	$ 227	$ 24	$ 408
Commercial real estate:				
Commercial mortgage	14,716	98	23	165
Construction	1,763	2	9	45
Total commercial real estate loans	16,479	100	32	210
Commercial lease financing	4,470	10	1	21
Total commercial loans	$ 65,972	$ 337	$ 57	$ 639
Real estate - residential mortgage	$ 5,497	$ 62	$ 2	$ 80
Home equity loans	11,339	221	8	276
Consumer direct loans	1,807	4	7	25
Credit cards	1,098	2	10	23
Consumer indirect loans	3,555	19	3	57
Total consumer loans	$ 23,296	$ 308	$ 30	$ 461
Total loans	$ 89,268	$ 645	$ 87	$ 1,100

The following table presents Key's impaired loans by loan type and geographic distribution:

September 30, 2018

in millions	Commercial and industrial	Real estate - commercial mortgage	Real estate - residential mortgage	Home equity loans	Consumer direct loans	Credit cards	Consumer indirect loans	Total
LOAN TYPE								
New York	$ 17	$ —	$ 15	$ 27	1	$ 1	$ 4	$ 65
Ohio	18	2	14	24	$ 1	1	1	61
Multiple	—	62	—	—	—	—	—	62
Florida	34	—	—	2	—	—	5	41
Texas	34	—	—	1	—	—	1	36
Pennsylvania	23	—	1	7	—	—	2	33
Tennessee	28	—	—	—	—	—	—	28
Washington	—	—	4	21	1	1	—	27
Idaho	16	—	1	4	—	—	—	21
Louisiana	13	—	—	—	—	—	—	13
Indiana	—	3	3	6	—	—	—	12
Oregon	—	—	4	8	—	—	—	12
New Jersey	6	—	—	—	—	—	4	10
New Hampshire	11	—	—	—	—	—	1	12
Massachusetts	6	—	1	—	—	—	2	9
Maine	—	—	1	7	—	—	1	9
Mississippi	—	8	—	—	—	—	—	8
Connecticut	—	—	2	3	—	—	2	7
Colorado	—	—	2	4	—	—	—	6
California	—	—	—	1	—	—	4	5
Utah	—	—	—	3	1	—	—	4
Michigan	—	—	—	2	—	—	1	3
Alaska	—	—	—	3	—	—	—	3
Vermont	—	—	1	1	—	—	1	3
Maryland	—	—	—	—	—	—	2	2
Ilinois	—	1	—	—	—	—	—	1
Arizona	—	—	—	1	—	—	—	1
Other	26	—	—	2	—	—	4	32
Total	$ 232	$ 76	$ 49	$ 127	$ 4	$ 3	$ 35	$ 526

The following table presents Key's nonperforming loans with no related allowance and nonperforming loans with a related allowance at September 30, 2018.

September 30, 2018 *in millions*	Loans With No Related Allowance	Loans With Related Allowance
LOAN TYPE		
Commercial and industrial	$ 187	$ 45
Commercial real estate:		
Commercial mortgage	11	65
Total commercial real estate loans	11	65
Total commercial loans	$ 198	$ 110
Real estate - residential mortgage	$ 15	$ 34
Home equity loans	50	77
Consumer direct loans	—	4
Credit cards	—	3
Consumer indirect loans	2	33
Total consumer loans	$ 67	$ 151
Total loans	$ 265	$ 261

The changes in the ALLL by loan category for the quarter ended September 30, 2018, is as follows:

in millions	ALLL at June 30, 2018	Provision	Charge-offs	Recoveries	ALLL at September 30, 2018
LOAN TYPE					
Commercial and industrial	$ 542	**$ 34**	**$ (38)**	**$ 5**	**$ 543**
Commercial real estate:					
Real estate - commercial mortgage	139	**9**	**(6)**	**1**	**143**
Real estate - construction	28	**3**	**—**	**—**	**31**
Total commercial real estate loans	167	**12**	**(6)**	**1**	**174**
Commercial lease financing	40	**(2)**	**(4)**	**3**	**37**
Total commercial loans	$ 749	**$ 44**	**$ (48)**	**$ 9**	**$ 754**
Real estate - residential mortgage	$ 10	**$ (1)**	**$ (2)**	**$ 2**	**$ 9**
Home equity loans	37	**(2)**	**(4)**	**3**	**34**
Consumer direct loans	26	**9**	**(10)**	**1**	**26**
Credit cards	46	**7**	**(10)**	**2**	**45**
Consumer indirect loans	19	**3**	**(7)**	**4**	**19**
Total consumer loans	$ 138	**$ 16**	**$ (33)**	**$ 12**	**$ 133**
Total loans	$ 887	**$ 60** [(a)]	**$ (81)**	**$ 21**	**$ 887**

(a) Excludes a provision for losses on lending-related commitments of $2 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. For bank and broker dealer counterparties, Key generally holds collateral in the form of cash and highly rated securities issued by the U.S. Treasury and government-sponsored enterprises including Ginnie Mae.

Counterparty Credit Risk Exposure for Securities Financing Agreements

Like other financing transactions, securities financing agreements contain an element of credit risk. To mitigate and manage credit risk exposure, Key generally enters into master netting agreements and other collateral arrangements that gives Key the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Additionally, Key establishes and monitors limits on its counterparty credit risk exposure by product type. For the reverse repurchase agreements, Key monitors the value of the underlying securities Key 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 Key's repurchase agreements. With the exception of collateral pledged against customer sweep repurchase agreements, the collateral Key pledges and receives can generally be sold or repledged by the secured parties without restriction.

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 84 of Key's Third Quarter 2018 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 83 of Key's Third Quarter 2018 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 September 30, 2018.

CREDIT RISK MITIGATION

Overview

Key is a buyer and, under limited circumstances, may be a 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 risk mitigation and credit derivative policies, see the section titled "Credit risk management" on page 43 and the sections titled "Counterparty Credit Risk," and "Credit Derivatives" in Note 7 ("Derivatives and Hedging Activities") beginning on pages 83 and 84, respectively, of Key's Third Quarter 2018 Form 10-Q.

Exposures covered by eligible financial collateral:

September 30, 2018 *in millions*	**Exposure Amount**
EXPOSURE TYPE	
Loans and leases	$ 85
Derivatives	117
Repo-style transactions	1,902
Letters of credit	93
Unfunded commitments	4
Total	$ 2,201

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Exposures covered by guarantees/credit derivatives and the risk-weighted asset amount associated with that exposure:

September 30, 2018 *in millions*	**Exposure Amount**	**Risk-Weighted Asset Amount**
EXPOSURE TYPE		
Securities	$ 30,183	$ 3,413
Loans and leases	511	98
Financial standby letters of credit and unfunded commitments	21	—

SECURITIZATION

Key's 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. Additionally, securitizations may be held at times as part of Key's fixed income portfolio to facilitate customer demand. These exposures are covered under the market risk rule. For more information on Key's market risk–weighted assets, including Key's market risk management practices, see the "Market Risk Management" section beginning on page 38 of Key's Third Quarter 2018 Form 10-Q. Key's total on-balance sheet risk-weighted asset impact from nontrading securitizations at September 30, 2018, is displayed in the table below.

September 30, 2018 *in millions*	**On-Balance Sheet Amount**	**Risk-Weighted Asset Amount**
Securities [(a)]	—	—
Other assets [(b)]	$ 68	$ 71
Total	$ 68	$ 71

(a) The securities portfolio is only $6,000 with a risk-weighted asset amount of $75,000.
(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 72 and 77, respectively, in Key's Third Quarter 2018 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 September 30, 2018.

September 30, 2018 *in millions*	Carrying Value	Fair Value
Non-publicly traded	$ 2,954	$ 2,954
Publicly traded	—	—
Total	$ 2,954	$ 2,954

September 30, 2018 *in millions*	Exposure Amount (a)	Risk-Weighted Asset Amount
Risk-Weights		
0%	$ 358	—
20%	286	$ 57
50%	127	64
100%	2,162	2,162
150%	15	23
400%	6	24
Total	$ 2,954	$ 2,330

(a) Exposure amount includes $959 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 assets and 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 38 of Key's Third Quarter 2018 Form 10-Q.

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.

Pillar 3 Requirement	Description	Pillar 3 Report	Third Quarter 2018 Form 10-Q	2017 Form 10-K
		Disclosure begins on page		
Scope of Application	Introduction	4		100
	Funds and Capital Transfer Restrictions	6		14, 18, 117
Capital Structure	Regulatory Capital Instruments	7	42, 52, 92, 97	174, Exhibits 3.1, 3.2, 3.3, 3.4, 4.1 and 4.4
Capital Adequacy	Capital Management and Planning	9	13, 36, 38	13
Risk Management	Overview	13		67
Credit Risk: General Disclosures	Overview	14	61, 77, 79	66, 76, 101
General Disclosure for Counterparty Credit Risk-related Exposures	Impact on Derivatives of Key Credit Rating Downgrade	17	84	
	Derivative Counterparty Credit Risk Exposures	17	83	
Credit Risk Mitigation	Overview	18	43, 83, 84	
Securitization	Securitization	20	38	
Equities Not Subject to Subpart F of this Part (the Market Risk Rule)	Overview	21	72, 77	
Interest Rate Risk for Nontrading Activities	Overview	22	38	