

Tax Impact Examples – First Niagara Acquisition

Examples of tax implications for former First Niagara shareholders

KeyCorp, as successor to First Niagara Financial Group, Inc.

The information contained herein and examples being provided below are illustrative and are being provided as a convenience to shareholders and their tax advisors when establishing their specific tax position. This information is not required to be provided by the Internal Revenue Code or any applicable rules of the Securities Exchange Commission. The information includes a general summary regarding the application of certain U.S. federal income tax laws and regulations relating to the effects of the Merger (as defined below) on the tax basis of KeyCorp common stock received in the Merger in exchange for First Niagara Financial Group, Inc. common stock. The information contained herein does not constitute tax advice and does not purport to be complete or to describe the consequences that may apply to particular categories of shareholders. KeyCorp does not provide tax advice to its shareholders. You should consult your own tax advisor regarding the particular consequences of the Merger to you, including the applicability and effect of all U.S. federal, state and local and foreign tax laws. You also are urged to read the Registration Statement that KeyCorp filed with the Securities and Exchange Commission on November 30, 2015, specifically the section under the heading “Material United States Federal Income Tax Consequences of the Merger” (available at: <http://investor.key.com/Doc/Index?did=34679668>)

Effective on August 1, 2016 with a closing date of July 29, 2016, and pursuant to the Agreement and Plan of Merger dated as of October 30, 2015, First Niagara Financial Group, Inc. (“First Niagara”) merged with and into KeyCorp, with KeyCorp as the surviving entity (“Merger”).

At the closing of the Merger, each outstanding share of First Niagara common stock (other than shares owned by First Niagara as treasury stock or otherwise owned by First Niagara or KeyCorp and any dissenting shares) was converted into the right to receive 0.680 KeyCorp common shares and \$2.30 in cash, which we refer to as the merger consideration.

A U.S. holder of First Niagara common stock will recognize gain (but not loss) in an amount equal to the lesser of,

(1) the amount by which the sum of the fair market value of the KeyCorp common stock and cash received by a holder of First Niagara common stock exceeds such holder’s tax basis in its First Niagara common stock, or

(2) the amount of cash received by such holder of First Niagara common stock (\$2.30 per share).

In each case the shareholder would exclude any cash received in lieu of fractional share interests in KeyCorp common stock.

The aggregate tax basis of the KeyCorp common stock received in the Merger (including any fractional share interests in KeyCorp common stock deemed received and exchanged for cash, as discussed below) will be the same as the aggregate tax basis of the First Niagara common stock for which it is exchanged, decreased by the amount of cash received in the Merger (excluding any cash received instead of fractional share interests in KeyCorp common stock), and increased by the amount of gain recognized on the exchange, excluding any gain recognized with respect to fractional share interests in KeyCorp common stock for which cash is received, as discussed below.

A holder of First Niagara common stock who receives cash instead of a fractional share of KeyCorp common stock will generally be treated as having received the fractional share pursuant to the Merger and then as having sold to KeyCorp that fractional share of KeyCorp common stock for cash. As a result, a holder of First Niagara common stock will generally recognize gain or loss equal to the difference between the amount of cash received and the tax basis allocated to such fractional share of KeyCorp common stock.

The following is an example of how the basis determination would be applied and resulting gain recognized:

Shares of First Niagara common stock owned: 707

First Niagara shareholder's aggregate adjusted basis: \$3,000.00

Whole shares of KeyCorp common stock received in the Merger (707 shares of First Niagara multiplied by the ratio of .680 and rounding down the product thereof- $707 \times .680=480.76$): 480

Number of fractional shares of KeyCorp common stock for which cash is paid: .760

FMV per share of KeyCorp shares received*: \$11.70

FMV of the total stock consideration received (i.e. KeyCorp shares received in exchange for First Niagara shares, including fractional shares of KeyCorp common stock deemed received) (FMV per share multiplied by total shares deemed received- $\$11.70 \times 480.76$): \$5,624.89

Cash consideration received in exchange for KeyCorp common stock pursuant to the Merger (707 total shares x \$2.30 in cash per share): \$1,626.10

Total Merger Consideration (cash consideration plus FMV of total stock consideration- $\$1,626.10 + \$5,624.89$): \$7,250.99

Realized gain (total Merger Consideration received minus aggregate adjusted tax basis- $\$7,250.99 - \$3,000.00$): \$4,250.99

Recognized gain (lesser of realized gain or cash consideration received): \$1,626.10

Aggregate tax basis of KeyCorp common stock received, including fractional shares deemed received (aggregate tax basis in First Niagara Shares minus cash received (excluding cash received in lieu of a fraction share of KeyCorp common stock) plus recognized gain- $\$3,000.00 - \$1,626.10 + \$1,626.10$): \$3,000.00

Tax basis per share of KeyCorp common stock received, including fractional shares deemed received (aggregate basis divided by total shares deemed received- $\$3,000.00 / 480.76$): $\$6.2401198$

Aggregate basis in whole shares of KeyCorp common stock received ($480 \times \$6.24$): $\$2,995.26$

Tax basis in fractional share deemed sold (fractional share multiplied by tax basis per share- $.76 \times \$6.2401198$): $\$4.74$

Cash received in deemed sale of fractional share (fractional share multiplied by FMV* per share- $.76 \times \$11.63$): $\$8.84$

Recognized gain on fractional share deemed sold (cash in lieu minus tax basis in fractional share- $\$8.84 - \4.74): $\$4.10$

* There are several possible methods for determining the fair market values of KeyCorp common stock and First Niagara common stock. One possible approach is to utilize the New York Stock Exchange market closing prices on July 29, 2016, the closing date of the merger, for KeyCorp ($\$11.70$ per share) and the NASDAQ closing price for First Niagara ($\$10.18$ per share). Other approaches to determine fair market value may also be possible. You should consult your tax advisor to determine the appropriate method. Pursuant to the Merger agreement, for purposes of calculating the cash in lieu of fractional shares only, the volume weighted average price of KeyCorp common shares on the New York Stock Exchange for the five trading days ending on the day prior to the effective time of the merger was used as FMV ($\$11.63$ per share).