

KEYCORP /NEW/
Form 10-K
February 24, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended

December 31, 2015

Commission file number: 1-11302

Exact name of Registrant as specified in its charter:

Ohio	34-6542451
State or other jurisdiction of incorporation or organization:	IRS Employer Identification Number:
127 Public Square, Cleveland, Ohio	44114-1306
Address of Principal Executive Offices:	Zip Code:
(216) 689-3000	
Registrant's Telephone Number, including area code:	

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Shares, \$1 par value	New York Stock Exchange

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7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A New York Stock Exchange
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated
filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant was \$12,670,985,551 (based on the June 30, 2015, closing price of KeyCorp common shares of \$15.02 as reported on the New York Stock Exchange). As of February 22, 2016, there were 835,606,185 common shares outstanding.

Certain specifically designated portions of KeyCorp's definitive Proxy Statement for its 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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Forward-looking Statements

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

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

- ⋮ deterioration of commercial real estate market fundamentals;
- ⋮ defaults by our loan counterparties or clients;
- ⋮ adverse changes in credit quality trends;
- ⋮ declining asset prices;
- ⋮ our concentrated credit exposure in commercial, financial, and agricultural loans;
- ⋮ the extensive and increasing regulation of the U.S. financial services industry;
- ⋮ changes in accounting policies, standards, and interpretations;
- ⋮ breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- ⋮ operational or risk management failures by us or critical third parties;
- ⋮ negative outcomes from claims or litigation;

- ¿ the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;
- ¿ increasing capital and liquidity standards under applicable regulatory rules;
- ¿ unanticipated changes in our liquidity position, including but not limited to, changes in our access to or the cost of funding, our ability to enter the financial markets and to secure alternative funding sources;
- ¿ our ability to receive dividends from our subsidiary, KeyBank;
- ¿ downgrades in our credit ratings or those of KeyBank;
- ¿ a reversal of the U.S. economic recovery due to financial, political or other shocks;
- ¿ our ability to anticipate interest rate changes and manage interest rate risk;
- ¿ deterioration of economic conditions in the geographic regions where we operate;
- ¿ the soundness of other financial institutions;
- ¿ our ability to attract and retain talented executives and employees and to manage our reputational risks;
- ¿ our ability to timely and effectively implement our strategic initiatives;
- ¿ increased competitive pressure due to industry consolidation;

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- ⌚ unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses;
- ⌚ our ability to complete the acquisition of First Niagara and to realize the anticipated benefits of the merger; and
- ⌚ our ability to develop and effectively use the quantitative models we rely upon in our business planning.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made, and we do not undertake any obligation to update any forward-looking statement to reflect the impact of subsequent events or circumstances. Before making an investment decision, you should carefully consider all risks and uncertainties disclosed in our SEC filings, including this report on Form 10-K and our subsequent reports on Forms 10-Q and 8-K and our registration statements under the Securities Act of 1933, as amended, all of which are or will upon filing be accessible on the SEC's website at www.sec.gov and on our website at www.key.com/ir.

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PART I

ITEM 1. BUSINESS

Overview

KeyCorp, organized in 1958 under the laws of the State of Ohio, is headquartered in Cleveland, Ohio. We are a BHC under the BHCA and one of the nation's largest bank-based financial services companies, with consolidated total assets of approximately \$95.1 billion at December 31, 2015. KeyCorp is the parent holding company for KeyBank National Association (KeyBank), its principal subsidiary, through which most of our banking services are provided. Through KeyBank and certain other subsidiaries, we provide a wide range of retail and commercial banking, commercial leasing, investment management, consumer finance, commercial mortgage servicing and special servicing, and investment banking products and services to individual, corporate, and institutional clients through two major business segments: Key Community Bank and Key Corporate Bank.

As of December 31, 2015, these services were provided across the country through KeyBank's 966 full-service retail banking branches and a network of 1,256 ATMs in 12 states, as well as additional offices, online and mobile banking capabilities, and a telephone banking call center. Additional information pertaining to our two business segments is included in the "Line of Business Results" section in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report, and in Note 23 ("Line of Business Results") of the Notes to Consolidated Financial Statements presented in Item 8. Financial Statements and Supplementary Data, which are incorporated herein by reference. KeyCorp and its subsidiaries had an average of 13,483 full-time equivalent employees for 2015.

In addition to the customary banking services of accepting deposits and making loans, our 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. Through our bank, trust company, and registered investment adviser subsidiaries, we provide investment management services to clients that include large corporate and public retirement plans, foundations and endowments, high-net-worth individuals, and multi-employer trust funds established for providing pension or other benefits to employees.

We provide other financial services both within and outside of our primary banking markets through various nonbank subsidiaries. These services include community development financing, securities underwriting, and brokerage. We also provide merchant services to businesses directly and through an equity participation in a joint venture.

KeyCorp is a legal entity separate and distinct from its banks and other subsidiaries. Accordingly, the right of KeyCorp, its security holders, and its creditors to participate in any distribution of the assets or earnings of its banks and other subsidiaries is subject to the prior claims of the creditors of such banks and other subsidiaries, except to the extent that KeyCorp's claims in its capacity as a creditor may be recognized.

Important Terms Used in this Report

As used in this report, references to Key, we, our, us and similar terms refer to the consolidated entity consisting of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers solely to KeyCorp's subsidiary bank, KeyBank National Association. KeyBank (consolidated) refers to the consolidated entity consisting of KeyBank and its subsidiaries.

The acronyms and abbreviations identified in Part II, Item 8. Note 1 (Summary of Significant Accounting Policies) hereof are used throughout this report, particularly in the Notes to Consolidated Financial Statements as well as in Management s Discussion and Analysis of Financial Condition and Results of Operations. You may find it helpful to refer to that section as you read this report.

Table of Contents**Demographics**

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

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

The following table presents the geographic diversity of Key Community Bank's average deposits, commercial loans, and home equity loans.

Geographic Region

	Rocky Mountains		Indiana		West Ohio/ Michigan		East Ohio		Western New York		Eastern New York		New England		NonRegion	
81	\$	5,262	\$	2,368	\$	4,477	\$	9,514	\$	4,915	\$	7,739	\$	2,889	\$	2,019
3.4	%	10.3	%	4.6	%	8.8	%	18.6	%	9.6	%	15.1	%	5.7	%	3.9
25	\$	1,734	\$	851	\$	1,155	\$	2,334	\$	622	\$	1,855	\$	820	\$	3,164
9.9	%	10.8	%	5.3	%	7.2	%	14.5	%	3.9	%	11.6	%	5.1	%	19.7
63	\$	1,563	\$	496	\$	835	\$	1,263	\$	831	\$	1,276	\$	658	\$	81
15.8	%	15.2	%	4.8	%	8.2	%	12.3	%	8.1	%	12.4	%	6.4	%	1.8

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

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

Further information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments is included in this report in Note 23 (Line of Business Results).

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The following financial data is included in this report in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8. Financial Statements and Supplementary Data, and is incorporated herein by reference as indicated below:

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Our executive offices are located at 127 Public Square, Cleveland, Ohio 44114-1306, and our telephone number is (216) 689-3000. Our website is www.key.com, and the investor relations section of our website may be reached through www.key.com/ir. We make available free of charge, on or through the investor relations section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website, and available in print upon request from any shareholder to our Investor Relations Department, are the charters for our Audit Committee, Compensation and Organization Committee, Executive Committee, Nominating and Corporate Governance Committee, and Risk Committee; our Corporate Governance Guidelines; the Code of Ethics for our directors, officers, and employees; our Standards for Determining Independence of Directors; our policy for Review of Transactions Between KeyCorp and Its Directors, Executive Officers and Other Related Persons; and our Statement of Political Activity. Within the time period required by the SEC and the NYSE, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any senior executive officer or director. We also make available a summary of filings made with the SEC of statements of beneficial ownership of our equity securities filed by our directors and officers under Section 16 of the Exchange Act. The Regulatory Disclosures and Filings tab of the investor relations section of our website includes public disclosures concerning our annual and mid-year stress-testing activities under the Dodd-Frank Act and our quarterly regulatory capital disclosures under the third pillar of Basel III.

Information contained on or accessible through our website or any other website referenced in this report is not part of this report. References to websites in this report are intended to be inactive textual references only.

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Shareholders may obtain a copy of any of the above-referenced corporate governance documents by writing to our Investor Relations Department at Investor Relations, KeyCorp, 127 Public Square, Mailcode OH-01-27-0737, Cleveland, Ohio 44114-1306; by calling (216) 689-4221; or by sending an e-mail to investor_relations@keybank.com.

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Acquisitions and Divestitures

On October 30, 2015, we announced that KeyCorp entered into a definitive agreement and plan of merger pursuant to which KeyCorp will acquire all of the outstanding capital stock of First Niagara. The merger is currently expected to be completed during the third quarter of 2016 and is subject to customary closing conditions, including the approval of regulators and the shareholders of both KeyCorp and First Niagara. For more information on the First Niagara acquisition and other acquisitions and divestitures by Key, see Note 13 (Acquisitions and Discontinued Operations), which is incorporated herein by reference.

Competition

The market for banking and related financial services is highly competitive. Key competes with other providers of financial services, such as BHCs, commercial banks, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers, and other local, regional, national, and global institutions that offer financial services. Some of our competitors are larger and may have more financial resources, while some of our competitors enjoy fewer regulatory constraints and may have lower cost structures. The financial services industry has become more competitive as technology advances have lowered barriers to entry, enabling more companies, including nonbank companies, to provide financial services. Technological advances may diminish the importance of depository institutions and other financial institutions. We compete by offering quality products and innovative services at competitive prices, and by maintaining our product and service offerings to keep pace with customer preferences and industry standards.

Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key's core banking products and services.

Executive Officers of KeyCorp

KeyCorp's executive officers are principally responsible for making policy for KeyCorp, subject to the supervision and direction of the Board. All executive officers are subject to annual election at the annual organizational meeting of the Board held each May.

Set forth below are the names and ages of the executive officers of KeyCorp as of December 31, 2015, the positions held by each at KeyCorp during the past five years, and the year each first became an executive officer of KeyCorp. Because Messrs. Buffie, Devine, and Kimble and Ms. Brady have been employed at KeyCorp for less than five years, information is being provided concerning their prior business experience. There are no family relationships among the directors or the executive officers.

Amy G. Brady (49) Ms. Brady is KeyCorp's Chief Information Officer, serving in that role since May 2012. Prior to joining KeyCorp, Ms. Brady spent 25 years with Bank of America (a financial services institution), where she most recently served as Senior Vice President and Chief Information Officer, Enterprise Technology and Operations, supporting technology delivery and operations for crucial enterprise functions. Ms. Brady has been an executive officer of KeyCorp since she joined in 2012.

Craig A. Buffie (55) Mr. Buffie has been KeyCorp's Chief Human Resources Officer since February 2013. Prior to joining KeyCorp, Mr. Buffie was employed for 27 years with Bank of America (a financial services institution), where he served in numerous human resources positions, including as a human resources executive for technology and operations for consumer and small business, as well as for its corporate and investment bank. Most recently, he was

Head of Home Loan Originations for Bank of America. Mr. Buffie has been an executive officer of KeyCorp since joining in 2013.

Edward J. Burke (59) Mr. Burke has been the Co-President, Commercial and Private Banking of Key Community Bank since April 2014 and an executive officer of KeyCorp since May 2014. From 2005 until his election as Co-President, Mr. Burke was an Executive Vice President and head of KeyBank Real Estate Capital and Key Community Development Lending.

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Dennis A. Devine (44) Mr. Devine has been the Co-President, Consumer and Small Business of Key Community Bank since April 2014 and an executive officer of KeyCorp since May 2014. From 2012 to 2014, Mr. Devine served as Executive Vice President in various roles, including as head of the Consumer & Small Business Segment and head of Integrated Channels and Community Bank Strategy for Key Community Bank. Prior to joining Key in 2012, Mr. Devine served in various executive capacities with Citizens Financial Group and PNC Bank (financial services institutions).

Trina M. Evans (51) Ms. Evans has been the Director of Corporate Center for KeyCorp since August 2012, partnering with Key's executive leadership team and Board to ensure alignment of strategy, objectives, priorities, and messaging across Key. Prior to this role, Ms. Evans was the Chief Administrative Officer for Key Community Bank and the Director of Client Experience for KeyBank. During her career with KeyCorp, she has served in a variety of senior management roles associated with the call center, internet banking, retail banking, distribution management and information technology. She became an executive officer of KeyCorp in March 2013.

Robert A. DeAngelis (54) Mr. DeAngelis has been the Director of the Enterprise Program Management Office for KeyCorp since November 2011, providing leadership for KeyCorp's large-scale, organization-wide initiatives. He previously served as the Consumer Segment executive with responsibility for developing client strategies and programs for Key's Community Bank Consumer and Small Business segments. He became an executive officer of KeyCorp in March 2013.

Christopher M. Gorman (55) Mr. Gorman has been the President of Key Corporate Bank since 2010. He previously served as a KeyCorp Senior Executive Vice President and head of Key National Banking during 2010. Mr. Gorman was an Executive Vice President of KeyCorp (2002 to 2010) and served as President of KeyBanc Capital Markets (2003 to 2010). He became an executive officer of KeyCorp in 2010.

Paul N. Harris (57) Mr. Harris has been the General Counsel and Secretary of KeyCorp since 2003 and an executive officer of KeyCorp since 2004.

William L. Hartmann (62) Mr. Hartmann has been the Chief Risk Officer of KeyCorp since July 2012. Mr. Hartmann joined KeyCorp in 2010 as its Chief Credit Officer. Mr. Hartmann has been an executive officer of KeyCorp since 2012.

Donald R. Kimble (55) Mr. Kimble has been the Chief Financial Officer of KeyCorp since June 2013. Prior to joining KeyCorp, Mr. Kimble served as Chief Financial Officer of Huntington Bancshares Inc., a bank holding company headquartered in Columbus, Ohio, after joining the company in August 2004, and also served as its Controller from August 2004 to November 2009. Mr. Kimble was also President and a director of Huntington Preferred Capital, Inc., a publicly-traded company, from August 2004 until May 2013. Mr. Kimble became an executive officer upon joining KeyCorp in June 2013.

Beth E. Mooney (60) Ms. Mooney has been the Chairman and Chief Executive Officer of KeyCorp since 2011, and an executive officer of KeyCorp since 2006. Prior to becoming Chairman and Chief Executive Officer, she served in a variety of roles with KeyCorp, including President and Chief Operating Officer and Vice Chair and head of Key Community Bank. Prior to joining KeyCorp, she served in a number of executive and senior finance roles with banks and bank holding companies across the United States. She has been a director of AT&T, a publicly-traded telecommunications company, since 2013.

Douglas M. Schosser (45) Mr. Schosser has been the Chief Accounting Officer and an executive officer of KeyCorp since May 2015. Prior to becoming the Chief Accounting Officer, Mr. Schosser served as an Integration Manager at

KeyCorp. From 2010 to 2014, he served as the Chief Financial Officer of Key Corporate Bank.

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Supervision and Regulation

The regulatory framework applicable to BHCs and banks is intended primarily to protect customers and depositors, the DIF, consumers, taxpayers and the banking system as a whole, rather than to protect the security holders and creditors of financial services companies. Comprehensive reform of the legislative and regulatory environment for financial services companies occurred in 2010 and remains ongoing. We cannot predict changes in applicable laws, regulations or regulatory agency policies, but such changes may materially affect our business, financial condition, results of operations, or access to liquidity or credit.

Overview

As a BHC, KeyCorp is subject to regulation, supervision, and examination by the Federal Reserve under the BHCA. Under the BHCA, BHCs generally may not directly or indirectly own or control more than 5% of the voting shares, or substantially all of the assets, of any bank, without prior approval by the Federal Reserve. In addition, BHCs are generally prohibited from engaging in commercial or industrial activities.

Under federal law, a BHC must serve as a source of financial strength to its subsidiary depository institutions by providing financial assistance to them in the event of their financial distress. This support may be required when we do not have the resources to, or would prefer not to, provide it. Certain loans by a BHC to a subsidiary bank are subordinate in right of payment to deposits in, and certain other indebtedness of, the subsidiary bank. In addition, federal law provides that in the bankruptcy of a BHC, any commitment by the BHC to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Federal law establishes a system of regulation under which the Federal Reserve is the umbrella regulator for BHCs, while their subsidiaries are principally regulated by prudential and functional regulators: 1) the OCC for national banks and federal savings associations; 2) the FDIC for non-member state banks and savings associations; 3) the Federal Reserve for member state banks; 4) the CFPB for consumer financial products or services; 5) the SEC and FINRA for securities broker/dealer activities; 6) the SEC, CFTC, and NFA for swaps and other derivatives; and 7) state insurance regulators for insurance activities. Certain specific activities, including traditional bank trust and fiduciary activities, may be conducted in a bank without the bank being deemed a broker or a dealer in securities for purposes of securities functional regulation. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in certain identifiable risks.

Our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the OCC. At December 31, 2015, we operated one full-service, FDIC-insured national bank subsidiary, KeyBank, and one national bank subsidiary that is limited to fiduciary activities. The FDIC also has certain regulatory, supervisory and examination authority over KeyBank and KeyCorp under the FDIA and the Dodd-Frank Act.

We have other financial services subsidiaries that are subject to regulation, supervision and examination by the Federal Reserve, as well as other applicable state and federal regulatory agencies and self-regulatory organizations. Because KeyBank engages in derivative transactions, in 2013 it provisionally registered as a swap dealer with the CFTC and became a member of the NFA, the self-regulatory organization for participants in the U.S. derivatives industry. Our securities brokerage and asset management subsidiaries are subject to supervision and regulation by the SEC, FINRA, and state securities regulators, and our insurance subsidiaries are subject to regulation by the insurance regulatory authorities of the states in which they operate. Our other nonbank subsidiaries are subject to laws and regulations of both the federal government and the various states in which they are authorized to do business.

Table of Contents**Regulatory capital and liquidity**

Federal banking regulators have promulgated risk-based capital and leverage ratio requirements applicable to Key and KeyBank (consolidated). The adequacy of regulatory capital is assessed periodically by federal banking agencies in their examination and supervision processes, and in the evaluation of applications in connection with certain expansion activities.

Regulatory capital requirements prior to January 1, 2015

At December 31, 2014, the minimum risk-based capital requirements adopted by federal banking regulators were based on a 1988 international accord (Basel I) developed by the Basel Committee on Banking Supervision (the Basel Committee). Prior to January 2015, Key and KeyBank (consolidated) were generally required to maintain a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital had to be Tier 1 capital, which consists of qualifying perpetual preferred stock, common shareholders equity (excluding AOCI other than the cumulative effect of foreign currency translation), a limited amount of qualifying trust preferred securities, and certain mandatorily convertible preferred securities. The remainder could consist of Tier 2 capital, including qualifying subordinated debt, certain hybrid capital instruments, perpetual debt, mandatory convertible debt instruments, qualifying perpetual preferred stock, and a limited amount of the allowance for credit losses. BHCs and banks with securities and commodities trading activities exceeding specified levels were required to maintain capital to cover their market risk exposure. Federal banking regulators also established a minimum leverage ratio requirement for banking organizations. The leverage ratio is Tier 1 capital divided by adjusted average total assets. At December 31, 2014, the minimum leverage ratio was 3% for BHCs and national banks that are considered strong by the Federal Reserve or the OCC, respectively, 3% for any BHC that had implemented the Federal Reserve's risk-based capital measure for market risk, and 4% for all other BHCs and national banks. At December 31, 2014, the minimum leverage ratio for Key and KeyBank (consolidated) was 3% and 4%, respectively. BHCs and national banks may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile, or growth plans. As presented in Note 22 (Shareholders Equity), at December 31, 2014, Key and KeyBank (consolidated) had regulatory capital in excess of all applicable minimum risk-based capital (including all adjustments for market risk) and leverage ratio requirements.

Basel III capital and liquidity frameworks

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, which will be added to the capital conservation buffer under the Regulatory Capital Rules, will be phased in during the January 1, 2016, through January 1, 2019, period. This final

rule applies to advanced approaches banking organizations, not standardized approach banking organizations like Key.

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The Basel Committee published its international liquidity standards in 2010, and revised them in January 2013, January 2014, and October 2014 (as revised, the Basel III liquidity framework). It established quantitative standards for liquidity by introducing a liquidity coverage ratio (Basel III LCR) and a net stable funding ratio (Basel III NSFR). The Basel Committee published final Basel III NSFR disclosure standards in June 2015.

The Basel III LCR, calculated as the ratio of the stock of high-quality liquid assets divided by total net cash outflows over 30 consecutive calendar days, must be at least 100%. The implementation of Basel III LCR began on January 1, 2015, with minimum requirements beginning at 60%, rising in annual steps of 10% until full implementation on January 1, 2019.

The Basel III NSFR, calculated as the ratio of the available amount of stable funding divided by the required amount of stable funding, must be at least 100%. The Basel III NSFR becomes effective on January 1, 2018.

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), which generally implement the Basel III capital framework as described above in the United States. 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.

New minimum capital and leverage ratio requirements

Under the Regulatory Capital Rules, a standardized approach banking organization, like KeyCorp, is required to meet the minimum capital and leverage ratios set forth in the following table. At December 31, 2015, Key had an estimated Common Equity Tier 1 Capital Ratio of 10.85% under the fully phased-in Regulatory Capital Rules. Also at December 31, 2015, based on the fully phased-in Regulatory Capital Rules, Key estimates that its capital and leverage ratios, after adjustment for market risk, would be as set forth in the following table.

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

Ratios (including Capital conservation buffer)	Key December 31, 2015 Estimated	Minimum January 1, 2015		Minimum Phase-in January 1, 2019			
				Period			
Common Equity Tier 1 ^(a)	10.84	%	4.5	%	None	4.5	%
Capital conservation buffer ^(b)					1/1/16 - 1/1/19	2.5	
Common Equity Tier 1 + Capital conservation buffer			4.5		1/1/16 - 1/1/19	7.0	

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Tier 1 Capital	11.15	6.0	None	6.0
Tier 1 Capital + Capital conservation buffer		6.0	1/1/16 - 1/1/19	8.5
Total Capital	12.85	8.0	None	8.0
Total Capital + Capital conservation buffer		8.0	1/1/16 - 1/1/19	10.5
Leverage ^(c)	10.59	4.0	None	4.0

- (a) See Figure 4 entitled GAAP to Non-GAAP Reconciliations, which presents the computation for estimated Common Equity Tier 1. The table reconciles the GAAP performance measure to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.
- (b) Capital conservation buffer must consist of Common Equity Tier 1 capital. As a standardized approach banking organization, KeyCorp is not subject to the countercyclical capital buffer of up to 2.5% imposed upon an advanced approaches banking organization under the Regulatory Capital Rules.

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

Revised prompt corrective action capital category ratios

Federal prompt corrective action regulations under the FDIA group FDIC-insured depository institutions into one of five prompt corrective action capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. In addition to implementing the Basel III capital framework in the U.S., the Regulatory Capital Rules also revised the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions such as KeyBank effective January 1, 2015. The Revised Prompt Corrective Action Rules table below identifies the capital category threshold ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules.

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

Prompt Corrective Action Ratio	Capital Category			
	Well Capitalized ^(a)		Adequately Capitalized	
Common Equity Tier 1 Risk-Based	6.5	%	4.5	%
Tier 1 Risk-Based	8.0		6.0	
Total Risk-Based	10.0		8.0	
Tier 1 Leverage ^(b)	5.0		4.0	

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

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

We believe that, as of December 31, 2015, KeyBank (consolidated) met all revised well capitalized prompt corrective action capital and leverage ratio requirements under the Regulatory Capital Rules. The prompt corrective action regulations, however, apply only to FDIC-insured depository institutions (like KeyBank) and not to BHCs (like KeyCorp). Moreover, since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyBank.

U.S. implementation of the Basel III liquidity framework

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

KeyBank will not be subject to the LCR or the Modified LCR under the Liquidity Coverage Rules unless the OCC affirmatively determines that application to KeyBank is appropriate in light of KeyBank's asset size, level of

complexity, risk profile, scope of operations, affiliation with foreign or domestic covered entities, or risk to the financial system. The LCR and Modified LCR created by the Liquidity Coverage Rules are also an enhanced prudential liquidity standard consistent with the Dodd-Frank Act.

Because KeyCorp is a Modified LCR BHC under the Liquidity Coverage Rules, Key is required to maintain its ratio of high-quality liquid assets to its total net cash outflow amount, determined by prescribed assumptions in a

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standardized hypothetical stress scenario over a 30-calendar day period, at least at 90% by January 1, 2016, and at least at 100% by January 1, 2017. At December 31, 2015, Key's estimated Modified LCR was above 100%. In the future, Key may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings to enhance or optimize our liquidity position. Calculation of Key's Modified LCR is required on a monthly basis, unlike on a daily basis for those U.S. banking organizations that are subject to the LCR rather than the Modified LCR. On December 1, 2015, the Federal Reserve published an NPR requesting public comment on a proposed rule that would implement quarterly quantitative and qualitative public disclosure requirements regarding the LCR. The proposed rule would require compliance with these requirements beginning on January 1, 2018, for Modified LCR BHCs like KeyCorp. Comments on the NPR were due by February 2, 2016.

The federal banking regulators have not yet issued any proposal to implement either the final Basel III NSFR or the final Basel III NSFR disclosure standards.

Capital planning and stress testing

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 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. 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.

KeyCorp filed its 2015 CCAR capital plan on January 5, 2015. KeyCorp is required to submit its 2016 CCAR capital plan by April 6, 2016. The Federal Reserve has indicated that it will announce the results of its supervisory stress tests by June 30, 2016, with the exact date to be announced before then.

As part of the annual CCAR, the Federal Reserve conducts an annual supervisory stress test on KeyCorp. As part of this test, the Federal Reserve projects revenue, expenses, losses, and resulting post-stress capital levels and regulatory capital ratios under conditions that affect the U.S. economy or the financial condition of KeyCorp, including supervisory baseline, adverse, and severely adverse scenarios, that are determined annually by the Federal Reserve. The 2015 CCAR results, which included the annual supervisory stress test methodology and certain firm-specific results for the participating covered companies (including KeyCorp), were publicly released by the Federal Reserve in March 2015.

In December 2015, the Federal Reserve published amendments to its capital plan and stress test rules. Under the amendments, for a standardized approach BHC like KeyCorp, the Federal Reserve has removed the Tier 1 common

capital ratio requirement as well as modified certain mandatory capital action assumptions. The modifications to the mandatory capital action assumptions include the requirement for the BHC to assume in its

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stress tests that: (i) it issues capital associated with funding a planned acquisition or merger to the extent the merger or acquisition is reflected in the BHC's pro forma balance sheet estimates, and (ii) it pays planned dividends on any issuance of stock related to expensed employee compensation. The modifications also incorporate the deduction from Tier 1 capital of a BHC's investment in certain hedge funds and private equity funds that are covered by section 619 of the Dodd-Frank Act, known as the Volcker Rule.

KeyCorp and KeyBank must also conduct their own company-run stress tests to assess the impact of stress scenarios (including supervisor-provided baseline, adverse, and severely adverse scenarios and, for KeyCorp, one KeyCorp-defined baseline scenario and at least one KeyCorp-defined stress scenario) on their consolidated earnings, losses, and capital over a nine-quarter planning horizon, taking into account their current condition, risks, exposures, strategies, and activities. While KeyBank must only conduct an annual stress test, KeyCorp must conduct both an annual and a mid-cycle stress test. KeyCorp and KeyBank are required to report the results of their annual stress tests to the Federal Reserve and OCC. KeyCorp is required to report the results of its mid-cycle stress test to the Federal Reserve. KeyCorp and KeyBank published the results of their company-run annual stress test on March 5, 2015. KeyCorp published the results of its company-run mid-cycle stress test on July 28, 2015. Summaries of the results of these company-run stress tests are disclosed each year under the Regulatory Disclosure tab of Key's Investor Relations website: <http://www.key.com/ir>.

Dividend restrictions

Federal banking law and regulations impose limitations on the payment of dividends by our national bank subsidiaries, (like KeyBank). Historically, dividends paid by KeyBank have been an important source of cash flow for KeyCorp to pay dividends on its equity securities and interest on its debt. Dividends by our national bank subsidiaries are limited to the lesser of the amounts calculated under an earnings retention test and an undivided profits test. Under the earnings retention test, without the prior approval of the OCC, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years. Under the undivided profits test, a dividend may not be paid in excess of a bank's undivided profits. Moreover, under the FDIA, an insured depository institution may not pay a dividend if the payment would cause it to be in a less than adequately capitalized prompt corrective action capital category or if the institution is in default in the payment of an assessment due to the FDIC. For more information about the payment of dividends by KeyBank to KeyCorp, please see Note 3 (Restrictions on Cash, Dividends and Lending Activities) in this report.

FDIA, Resolution Authority and Financial Stability**Deposit insurance and assessments**

The DIF provides insurance coverage for domestic deposits funded through assessments on insured depository institutions like KeyBank. The amount of deposit insurance coverage for each depositor's deposits is \$250,000 per depository.

The FDIC must assess the premium based on an insured depository institution's assessment base, calculated as its average consolidated total assets minus its average tangible equity. KeyBank's current annualized premium assessments can range from \$.025 to \$.45 for each \$100 of its assessment base. The rate charged depends on KeyBank's performance on the FDIC's large and highly complex institution risk-assessment scorecard, which includes factors such as KeyBank's regulatory rating, its ability to withstand asset and funding-related stress, and the relative magnitude of potential losses to the FDIC in the event of KeyBank's failure.

In November 2015, the FDIC published an NPR and request for comments proposing to impose a surcharge, as required by the Dodd-Frank Act, on the quarterly deposit insurance assessments of insured depository institutions having total consolidated assets of at least \$10 billion (like KeyBank). Such surcharge would begin the calendar quarter after the DIF reserve ratio first reaches or exceeds 1.15% and would continue through the quarter that it

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first reaches or exceeds 1.35%. At September 30, 2015, the DIF reserve ratio was 1.09%. The surcharge would equal an annual rate of 0.00045% applied to the institution's assessment base (with certain adjustments). The FDIC expects that these surcharges will commence in 2016 and that they should be sufficient to raise the DIF reserve ratio to 1.35% in approximately eight quarters (i.e., before the end of 2018). If, contrary to the FDIC's expectations, the DIF reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC would impose a shortfall assessment on insured depository institutions with total consolidated assets of at least \$10 billion (like KeyBank) on March 31, 2019. The comment period for the NPR expired in early January 2016.

Conservatorship and receivership of insured depository institutions

Upon the insolvency of an insured depository institution, the FDIC will be appointed as receiver or, in rare circumstances, conservator for the insolvent institution under the FDIA. In an insolvency, the FDIC may repudiate or disaffirm any contract to which the institution is a party if the FDIC determines that performance of the contract would be burdensome and that disaffirming or repudiating the contract would promote orderly administration of the institution's affairs. If the contractual counterparty made a claim against the receivership (or conservatorship) for breach of contract, the amount paid to the counterparty would depend upon, among other factors, the receivership (or conservatorship) assets available to pay the claim and the priority of the claim relative to others. In addition, the FDIC may enforce most contracts entered into by the insolvent institution, notwithstanding any provision that would terminate, cause a default, accelerate or give other rights under the contract solely because of the insolvency, the appointment of the receiver (or conservator), or the exercise of rights or powers by the receiver (or conservator). The FDIC may also transfer any asset or liability of the insolvent institution without obtaining approval or consent from the institution's shareholders or creditors. These provisions would apply to obligations and liabilities of KeyCorp's insured depository institution subsidiaries, such as KeyBank, including obligations under senior or subordinated debt issued to public investors.

Receivership of certain SIFIs

The Dodd-Frank Act created a new resolution regime, as an alternative to bankruptcy, known as the orderly liquidation authority (OLA) for certain SIFIs, including BHCs and their affiliates. Under the OLA, the FDIC would generally be appointed as receiver to liquidate and wind up a failing SIFI. The determination that a SIFI should be placed into OLA receivership is made by the U.S. Treasury Secretary, who must conclude that the SIFI is in default or in danger of default and that the SIFI's failure poses a risk to the stability of the U.S. financial system. This determination must come after supermajority recommendations by the Federal Reserve and the FDIC, and consultation between the U.S. Treasury Secretary and the President.

If the FDIC is appointed as receiver under the OLA, its powers and the rights and obligations of creditors and other relevant parties would be determined exclusively under the OLA. The powers of a receiver under the OLA are generally based on the FDIC's powers as receiver for insured depository institutions under the FDIA. Certain provisions of the OLA were modified to reduce disparate treatment of creditors' claims between the U.S. Bankruptcy Code and the OLA. However, substantial differences between the two regimes remain, including the FDIC's right to disregard claim priority in some circumstances, the use of an administrative claims procedure under OLA to determine creditors' claims (rather than a judicial procedure in bankruptcy), the FDIC's right to transfer claims to a bridge entity, and limitations on the ability of creditors to enforce contractual cross-defaults against potentially viable affiliates of the entity in receivership. OLA liquidity would be provided through credit support from the U.S. Treasury and assessments made, first, on claimants against the receivership that received more in the OLA resolution than they would have received in ordinary liquidation (to the full extent of the excess), and second, if necessary, on SIFIs, like KeyCorp, utilizing a risk-based methodology.

In December 2013, the FDIC published a notice for comment regarding its single point of entry resolution strategy under the OLA. This strategy involves the appointment of the FDIC as receiver for the SIFI's top-level U.S. holding company only, while permitting the operating subsidiaries of the failed holding company to

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continue operations uninterrupted. As receiver, the FDIC would establish a bridge financial company for the failed holding company and would transfer the assets and a very limited set of liabilities of the receivership estate. The claims of unsecured creditors and other claimants in the receivership would be satisfied by the exchange of their claims for the securities of one or more new holding companies emerging from the bridge company. The FDIC has not taken any subsequent regulatory action relating to this resolution strategy under OLA since the comment period ended in March 2014.

Depositor preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of its depositors (including claims of its depositors that have subrogated to the FDIC) and certain claims for administrative expenses of the FDIC as receiver have priority over other general unsecured claims. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will be placed ahead of unsecured, nondeposit creditors, including the institution's parent BHC and subordinated creditors, in order of priority of payment.

Resolution plans

BHCs with at least \$50 billion in total consolidated assets, like KeyCorp, are required to periodically submit to the Federal Reserve and FDIC a plan discussing how the company could be rapidly and orderly resolved if the company failed or experienced material financial distress. Insured depository institutions with at least \$50 billion in total consolidated assets, like KeyBank, are also required to submit a resolution plan to the FDIC. These plans are due annually by December 31 of each year. For 2015, these resolution plans, the third required from KeyCorp and KeyBank, were submitted on December 1, 2015. Annually, in January, the Federal Reserve and FDIC make available on their websites the public sections of resolution plans for the companies, including KeyCorp and KeyBank, that submitted plans in the prior December. The public section of the resolution plans of KeyCorp and KeyBank is available at <http://www.federalreserve.gov/bankinfo/reg/resolution-plans.htm> and <https://www.fdic.gov/regulations/reform/resplans/>.

Financial Stability Oversight Council

The Dodd-Frank Act created the FSOC, a systemic risk oversight body, to: (i) identify risks to U.S. financial stability that could arise from the material financial distress or failure, or ongoing activities, of large, interconnected SIFIs, or that could arise outside the financial services marketplace, (ii) promote market discipline by eliminating expectations that the U.S. government will shield shareholders, creditors, and counterparties from losses in the event of failure, and (iii) respond to emerging threats to the stability of the U.S. financial system. The FSOC is responsible for facilitating regulatory coordination, information collection and sharing, designating nonbank financial companies for consolidated supervision by the Federal Reserve, designating systemic financial market utilities and systemic payment, clearing, and settlement activities requiring prescribed risk management standards and heightened federal regulatory oversight, recommending stricter standards for SIFIs, and, together with the Federal Reserve, determining whether action should be taken to break up firms that pose a grave threat to U.S. financial stability.

The Bank Secrecy Act

The BSA requires all financial institutions (including banks and securities broker-dealers) to, among other things, maintain a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. It includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting) as well as due diligence and know-your-customer documentation requirements. Key has established and maintains an anti-money laundering program to comply with the BSA's requirements.

Table of Contents**Other Regulatory Developments under the Dodd-Frank Act****Consumer Financial Protection Bureau**

Title X of the Dodd-Frank Act created the CFPB, a consumer financial services regulator with supervisory authority over banks and their affiliates with assets of more than \$10 billion, like Key, to carry out federal consumer protection laws. The CFPB also regulates financial products and services sold to consumers and has rulemaking authority with respect to federal consumer financial laws. Any new regulatory requirements promulgated by the CFPB or modifications in the interpretations of existing regulations could require changes to Key's consumer-facing businesses. The Dodd-Frank Act also gives the CFPB broad data collecting powers for fair lending for both small business and mortgage loans, as well as extensive authority to prevent unfair, deceptive and abusive practices.

Volcker Rule

The Volcker Rule implements Section 619 of the Dodd-Frank Act. The Volcker Rule prohibits banking entities, such as KeyCorp, KeyBank and their affiliates and subsidiaries, from owning, sponsoring, or having certain relationships with hedge funds and private equity funds (referred to as covered funds) and engaging in short-term proprietary trading of securities, derivatives, commodity futures and options on these instruments.

The Volcker Rule excepts certain transactions from the general prohibition against proprietary trading, including transactions in government securities (e.g., U.S. Treasuries or any instruments issued by the GNMA, FNMA, FHLMC, a Federal Home Loan Bank, or any state or a political division of any state, among others); transactions in connection with underwriting or market-making activities; and, transactions as a fiduciary on behalf of customers. Banking entities may also engage in risk-mitigating hedges if the entity can demonstrate that the hedge reduces or mitigates a specific, identifiable risk or aggregate risk position of the entity. The banking entity is required to conduct an analysis supporting its hedging strategy and the effectiveness of the hedges must be monitored and, if necessary, adjusted on an ongoing basis. Banking entities with more than \$50 billion in total consolidated assets and liabilities, like Key, that engage in permitted trading transactions are required to implement enhanced compliance programs, to regularly report data on trading activities to the regulators, and to provide a CEO attestation that the entity's compliance program is reasonably designed to comply with the Volcker Rule.

Although the Volcker Rule became effective on April 1, 2014, on December 18, 2014, the Federal Reserve exercised its unilateral authority to extend the compliance deadline until July 21, 2016, with respect to covered funds. The Federal Reserve further indicated its intent to grant an additional one-year extension of the compliance deadline until July 21, 2017, and indicated it would re-evaluate its rules relating to the process by which banking entities would be able to apply for further five-year extensions. Key does not anticipate that the proprietary trading restrictions in the Volcker Rule will have a material impact on its business, but it may be required to divest certain fund investments as discussed in more detail under the heading Other investments in Item 7 of this report.

Enhanced prudential standards and early remediation requirements

Under the Dodd-Frank Act, the Federal Reserve must impose enhanced prudential standards and early remediation requirements upon BHCs, like KeyCorp, with at least \$50 billion in total consolidated assets. Prudential standards must include enhanced risk-based capital requirements and leverage limits, liquidity requirements, risk-management and risk committee requirements, resolution plan requirements, credit exposure report requirements, single counterparty credit limits (SCCL), supervisory and company-run stress test requirements and, for certain financial companies, a debt-to-equity limit. Early remediation requirements must include limits on capital distributions, acquisitions, and asset growth in early stages of financial decline and capital restoration plans, capital raising

requirements, limits on transactions with affiliates, management changes, and asset sales in later stages of financial decline, which are to be triggered by forward-looking indicators including regulatory capital and liquidity measures.

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The stress test requirements applicable to KeyCorp were implemented by a final rule adopted by the Federal Reserve in 2012. The resolution plan requirements applicable to KeyCorp were implemented by a joint final rule adopted by the Federal Reserve and FDIC in 2011.

In March 2014, the Federal Reserve published a final rule to implement certain of these required enhanced prudential standards. The enhanced prudential standards implemented by this final rule were: (i) the incorporation of the Regulatory Capital Rules through the Federal Reserve's previously finalized rules on capital planning and stress tests, (ii) liquidity requirements relating to cash flow projections, a contingency funding plan, liquidity risk limits, monitoring liquidity risks (with respect to collateral, legal entities, currencies, business lines, and intraday exposures), liquidity stress testing, and a liquidity buffer, (iii) the risk management framework, the risk committee, and the chief risk officer as well as the corporate governance requirements as they relate to liquidity risk management, including the requirements that apply to the board of directors, the risk committee, senior management, and the independent review function, and (iv) a 15-to-1 debt-to-equity limit for companies that the FSOC determines pose a grave threat to U.S. financial stability. KeyCorp was required to comply with the final rule starting on January 1, 2015.

The SCCL and the early remediation requirements published in January 2012 by the Federal Reserve as a proposed rule, however, were not included as part of the March 2014 final rule. It is unclear when the Federal Reserve will finalize the early remediation requirements. No credit exposure reporting requirements, which must be implemented jointly by the Federal Reserve and FDIC, have yet been proposed. The Federal Reserve has indicated that both the Federal Reserve and FDIC recognize that such reports would be most useful and complete if developed in conjunction with the SCCL.

Bank transactions with affiliates

Federal banking law and regulation imposes qualitative standards and quantitative limitations upon certain transactions by a bank with its affiliates, including the bank's parent BHC and certain companies the parent BHC may be deemed to control for these purposes. Transactions covered by these provisions must be on arm's-length terms, and cannot exceed certain amounts that are determined with reference to the bank's regulatory capital. Moreover, if the transaction is a loan or other extension of credit, it must be secured by collateral in an amount and quality expressly prescribed by statute, and if the affiliate is unable to pledge sufficient collateral, the BHC may be required to provide it. These provisions materially restrict the ability of KeyBank to fund its affiliates, including KeyCorp, KBCM, certain of the Victory mutual funds with which we continue to have a relationship, and KeyCorp's nonbanking subsidiaries engaged in making merchant banking investments (and certain companies in which these subsidiaries have invested).

Provisions added by the Dodd-Frank Act expanded the scope of: (i) the definition of affiliate to include any investment fund having any bank or BHC-affiliated company as an investment adviser, (ii) credit exposures subject to the prohibition on the acceptance of low-quality assets or securities issued by an affiliate as collateral, the quantitative limits, and the collateralization requirements to now include credit exposures arising out of derivative, repurchase agreement, and securities lending/borrowing transactions, and (iii) transactions subject to quantitative limits to now also include credit collateralized by affiliate-issued debt obligations that are not securities. In addition, these provisions require that a credit extension to an affiliate remain secured in accordance with the collateral requirements at all times that it is outstanding, rather than the previous requirement of only at the inception or upon material modification of the transaction. These provisions also raise significantly the procedural and substantive hurdles required to obtain a regulatory exemption from the affiliate transaction requirements. While these provisions became effective on July 21, 2012, the Federal Reserve has not yet issued a proposed rule to implement them.

ITEM 1A. RISKFACTORS

As a financial services organization, we are subject to a number of risks inherent in our transactions and present in the business decisions we make. Described below are the primary risks and uncertainties that if realized could

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have a material and adverse effect on our business, financial condition, results of operations or cash flows, and our access to liquidity. The risks and uncertainties described below are not the only risks we face.

Our ERM program incorporates risk management throughout our organization to identify, understand, and manage the risks presented by our business activities. Our ERM program identifies Key's major risk categories as: credit risk, compliance risk, operational risk, liquidity risk, market risk, reputation risk, strategic risk, and model risk. These risk factors, and other risks we may face, are discussed in more detail in other sections of this report.

I. Credit Risk

Should the fundamentals of the commercial real estate market deteriorate, our financial condition and results of operations could be adversely affected.

The strong recovery in commercial real estate, in particular the multifamily property sector, has contributed to a surge in investment and development activity. As a result, property values are elevated and oversupply is a concern in certain markets. Substantial deterioration in property market fundamentals could have an impact on our portfolio, with a large portion of our clients active in real estate and specifically multifamily real estate. A correction in the real estate markets could impact the ability of borrowers to make debt service payments on loans. A portion of our commercial real estate loans are construction loans. Typically these properties are not fully leased at loan origination; the borrower may require additional leasing through the life of the loan to provide cash flow to support debt service payments. If property market fundamentals deteriorate sharply, the execution of new leases could slow, compromising the borrower's ability to cover the debt service payments.

We are subject to the risk of defaults by our loan counterparties and clients.

Many of our routine transactions expose us to credit risk in the event of default of our counterparty or client. Our credit risk may be exacerbated when the collateral held cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the loan or derivative exposure due us. In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of counterparties and clients, including financial statements, credit reports and other information. We may also rely on representations of those counterparties, clients, or other third parties as to the accuracy and completeness of that information. The inaccuracy of that information or those representations affects our ability to accurately evaluate the default risk of a counterparty or client.

Various factors may cause our allowance for loan and lease losses to increase.

We maintain an ALLL (a reserve established through a provision for loan and lease losses charged to expense) that represents our estimate of losses based on our evaluation of risks within our existing portfolio of loans. The level of the allowance reflects our ongoing evaluation of industry concentrations; specific credit risks; loan and lease loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and incurred losses inherent in the current loan portfolio. The determination of the appropriate level of the ALLL inherently involves a degree of subjectivity and requires that we make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the stagnation of certain economic indicators that we are more susceptible to, such as unemployment and real estate values, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may indicate the need for an increase in the ALLL. Bank regulatory agencies periodically review our ALLL and, based on judgments that can differ somewhat from those of our own management, may necessitate an increase in the provision for loan and lease losses or the recognition of further loan charge-offs. In addition, if charge-offs in

future periods exceed the ALLL (i.e., if the loan and lease allowance is inadequate), we will need additional loan and lease loss provisions to increase the ALLL, which would decrease our net income and capital.

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Declining asset prices could adversely affect us.

During the Great Recession, the volatility and disruption that the capital and credit markets experienced reached extreme levels. This severe market disruption led to the failure of several substantial financial institutions, causing the widespread liquidation of assets and constraining the credit markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, rapidly drove down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on our balance sheet, and reduces our ability to sell assets at prices we deem acceptable. Although the recovery has been in place for some time, a further recession would likely reverse recent positive trends in asset prices.

We have concentrated credit exposure in commercial, financial and agricultural loans, commercial real estate loans, and commercial leases.

As of December 31, 2015, approximately 74% of our loan portfolio consisted of commercial, financial and agricultural loans, commercial real estate loans, including commercial mortgage and construction loans, and commercial leases. These types of loans are typically larger than residential real estate loans and consumer loans, and have a different risk profile that includes, among other risks, a borrower's failure to comply with applicable environmental laws and regulations. The deterioration of a larger loan or a group of these loans could cause a significant increase in nonperforming loans, which would result in net loss of earnings from these loans, an increase in the provision for loan and lease losses, and an increase in loan charge-offs.

II. Compliance Risk

We are subject to extensive and increasing government regulation and supervision.

As a financial services institution, we are subject to extensive federal and state regulation and supervision, which has increased in recent years due to the implementation of the Dodd-Frank Act and other financial reform initiatives. Banking regulations are primarily intended to protect depositors' funds, the DIF, consumers, taxpayers, and the banking system as a whole, not our debtholders or shareholders. These regulations increase our costs and affect our lending practices, capital structure, investment practices, dividend policy, ability to repurchase our common shares, and growth, among other things.

We face increased regulation of our industry as a result of current and future initiatives intended to provide financial market stability and enhance the liquidity and solvency of financial institutions. We expect continued intense scrutiny from our bank supervisors in the examination process and aggressive enforcement of regulations at the federal and state levels, particularly due to KeyBank's and KeyCorp's status as covered institutions under the Dodd-Frank Act's heightened prudential standards and regulations. We also face increased regulation from efforts designed to protect consumers from financial abuse. Although many parts of the Dodd-Frank Act are now in effect, other parts continue to be implemented. As a result, some uncertainty remains as to the aggregate impact upon Key of the Dodd-Frank Act.

Changes to existing statutes, regulations or regulatory policies or their interpretation or implementation, and becoming subject to additional heightened regulatory practices, requirements, or expectations, could affect us in substantial and unpredictable ways. These changes may subject us to additional costs and increase our litigation risk should we fail to appropriately comply. Such changes may also limit the types of financial services and products we may offer, affect the investments we make, and change the manner in which we operate.

Additionally, federal banking law grants substantial enforcement powers to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and affiliated parties.

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These enforcement actions may be initiated for violations of laws and regulations, for practices determined to be unsafe or unsound, or for practices or acts that are determined to be unfair, deceptive, or abusive.

For more information, see **Supervision and Regulation** in Item 1 of this report.

Changes in accounting policies, standards, and interpretations could materially affect how we report our financial condition and results of operations.

The FASB and other bodies that establish accounting standards periodically change the financial accounting and reporting standards governing the preparation of Key's financial statements. Additionally, those bodies that establish and/or interpret the financial accounting and reporting standards (such as the FASB, SEC, and banking regulators) may change prior interpretations or positions on how these standards should be applied. These changes can be difficult to predict and can materially affect how Key records and reports its financial condition and results of operations. In some cases, Key could be required to retroactively apply a new or revised standard, resulting in changes to previously reported financial results.

III. Operational Risk

We are subject to a variety of operational risks.

In addition to the other risks discussed in this section, we are subject to operational risk, which represents the risk of loss resulting from human error, inadequate or failed internal processes and systems, and external events. Operational risk includes the risk of fraud by employees, clerical and record-keeping errors, nonperformance by vendors, threats to cybersecurity, and computer/telecommunications malfunctions. Operational risk also encompasses compliance and legal risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards, as well as the risk of our noncompliance with contractual and other obligations. We are also exposed to operational risk through our outsourcing arrangements, and the effect that changes in circumstances or capabilities of our outsourcing vendors can have on our ability to continue to perform operational functions necessary to our business, such as certain loan processing functions. For example, breakdowns or failures of our vendors systems or employees could be a source of operational risk to us. Resulting losses from operational risk could take the form of explicit charges, increased operational costs, harm to our reputation, inability to secure insurance, litigation, regulatory intervention or sanctions or foregone business opportunities.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications, information systems (both internal and provided by third parties) and the Internet to conduct our business. Our business is dependent on our ability to process and monitor large numbers of daily transactions in compliance with legal, regulatory and internal standards and specifications. In addition, a significant portion of our operations relies heavily on the secure processing, storage and transmission of personal and confidential information, such as the personal information of our customers and clients. These risks may increase in the future as we continue to increase mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

In the event of a failure, interruption or breach of our information systems, we may be unable to avoid impact to our customers. Other U.S. financial service institutions and companies have reported breaches, some severe, in the security of their websites or other systems and several financial institutions, including Key, experienced significant distributed denial-of-service attacks, some of which involved sophisticated and targeted attacks intended to disable or degrade service, or sabotage systems. Other potential attacks have attempted to obtain unauthorized access to

confidential information or destroy data, often through the introduction of computer viruses or malware, phishing, cyberattacks, and other means. To date, none of these efforts has had a material adverse effect on our business or operations. Such security attacks can originate from a wide variety of sources,

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including persons who are involved with organized crime or who may be linked to terrorist organizations or hostile foreign governments. Those same parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. Our security systems may not be able to protect our information systems from similar attacks due to the rapid evolution and creation of sophisticated cyberattacks. We are also subject to the risk that our employees may intercept and transmit unauthorized confidential or proprietary information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, remediation costs, regulatory action, and reputational harm.

We rely on third parties to perform significant operational services for us.

Third parties perform significant operational services on our behalf. These third parties are subject to similar risks as Key relating to cybersecurity, breakdowns or failures of their own systems or employees. One or more of these third parties may experience a cybersecurity event or operational disruption and, if any such event does occur, it may not be adequately addressed, either operationally or financially, by such third party. Certain of these third parties may have limited indemnification obligations or may not have the financial capacity to satisfy their indemnification obligations. Financial or operational difficulties of a third party could also impair our operations if those difficulties interfere with such third party's ability to serve us. Additionally, some of our outsourcing arrangements are located overseas and, therefore, are subject to risks unique to the regions in which they operate. If a critical third party is unable to meet our needs in a timely manner or if the services or products provided by such third party are terminated or otherwise delayed and if we are not able to develop alternative sources for these services and products quickly and cost-effectively, it could have a material adverse effect on our business. Additionally, regulatory guidance adopted by federal banking regulators related to how banks select, engage and manage their third parties affects the circumstances and conditions under which we work with third parties and the cost of managing such relationships.

We are subject to claims and litigation.

From time to time, customers, vendors or other parties may make claims and take legal action against us. We maintain reserves for certain claims when deemed appropriate based upon our assessment that a loss is probable, estimable, and consistent with applicable accounting guidance. At any given time we have a variety of legal actions asserted against us in various stages of litigation. Resolution of a legal action can often take years. Whether any particular claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in our favor, they may result in significant financial liability and adversely affect how the market perceives us and our products and services as well as impact customer demand for those products and services.

We are also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business, including, among other things, accounting and operational matters, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. The number and risk of these investigations and proceedings has increased in recent years with regard to many firms in the financial services industry due to legal changes to the consumer protection laws provided for by the Dodd-Frank Act and the creation of the CFPB.

There have also been a number of highly publicized legal claims against financial institutions involving fraud or misconduct by employees, and we run the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases.

Our controls and procedures may fail or be circumvented, and our methods of reducing risk exposure may not be effective.

We regularly review and update our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. We also maintain an ERM program designed to identify, measure, monitor, report and analyze our risks. Any system of controls and any system to reduce risk exposure, however well

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designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Additionally, instruments, systems and strategies used to hedge or otherwise manage exposure to various types of market compliance, credit, liquidity, operational and business risks and enterprise-wide risk could be less effective than anticipated. As a result, we may not be able to effectively mitigate our risk exposures in particular market environments or against particular types of risk.

Climate change, severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business.

Natural disasters, including severe weather events of increasing strength and frequency due to climate change, acts of war or terrorism, and other adverse external events could have a significant impact on our ability to conduct business or upon third parties who perform operational services for us or our customers. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause us to incur additional expenses.

IV. Liquidity Risk

Capital and liquidity requirements imposed by the Dodd-Frank Act require banks and BHCs to maintain more and higher quality capital and more and higher quality liquid assets than has historically been the case.

New and evolving capital standards resulting from the Dodd-Frank Act and the Regulatory Capital Rules adopted by our regulators will have a significant impact on banks and BHCs, including Key. For a detailed explanation of the new capital and liquidity rules that became effective for us on a phased-in basis on January 1, 2015, see the section titled **Regulatory capital and liquidity** under the heading **Supervision and Regulation** in Item 1 of this report.

The Federal Reserve's new capital standards will require Key to maintain more and higher quality capital and could limit our business activities (including lending) and our ability to expand organically or through acquisitions. They could also result in our taking steps to increase our capital that may be dilutive to shareholders or limit our ability to pay dividends or otherwise return capital to shareholders. Capital securities usually are the most expensive form of funding, and increasing capital levels could adversely impact Key's profitability.

In addition, the new liquidity standards will require us to increase our holdings of higher-quality liquid assets, may require us to change our mix of investment alternatives, and may impact business relationships with certain customers. Additionally, support of the new liquidity standards may be satisfied through the use of term wholesale borrowings, which tend to have a higher cost of funds than that of traditional core deposits.

Further, the Federal Reserve requires bank holding companies to obtain approval before making a capital distribution, such as paying or increasing dividends, implementing common stock repurchase programs, or redeeming or repurchasing capital instruments. The Federal Reserve has detailed the processes that bank holding companies should maintain to ensure they hold adequate capital under severely adverse conditions and have ready access to funding before engaging in any capital activities. These rules could limit Key's ability to make distributions, including paying out dividends or buying back shares. For more information, see the section titled **Regulatory capital and liquidity** under the heading **Supervision and Regulation** in Item 1 of this report.

Federal agencies may take actions that disrupt the stability of the U.S. financial system.

Since 2008, the federal government has taken unprecedented steps to provide stability to and confidence in the financial markets. For example, the Federal Reserve maintains a variety of stimulus policy measures designed to

maintain a low interest rate environment. In light of recent moderate improvements in the U.S. economy, federal

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agencies may no longer support such initiatives. The discontinuation of such initiatives may have unanticipated or unintended impacts, perhaps severe, on the financial markets. These effects could include a sudden move to higher debt yields, which could have an unfavorable effect on the quantity and cost of borrowed funds. In addition, new initiatives or legislation may not be implemented, or, if implemented, may not be adequate to counter any negative effects of discontinuing programs or, in the event of an economic downturn, to support and stabilize the economy.

We rely on dividends by our subsidiaries for most of our funds.

We are a legal entity separate and distinct from our subsidiaries. With the exception of cash that we may raise from debt and equity issuances, we receive substantially all of our funding from dividends by our subsidiaries. Dividends by our subsidiaries are the principal source of funds for the dividends we pay on our common and preferred stock and interest and principal payments on our debt. Federal banking law and regulations limit the amount of dividends that KeyBank (KeyCorp's largest subsidiary) can pay. For further information on the regulatory restrictions on the payment of dividends by KeyBank, see **Supervision and Regulation** in Item 1 of this report.

In the event KeyBank is unable to pay dividends to us, we may not be able to service debt, pay obligations or pay dividends on our common or preferred stock. Such a situation could result in Key losing access to alternative wholesale funding sources. In addition, our right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's creditors.

We are subject to liquidity risk, which could negatively affect our funding levels.

Market conditions or other events could negatively affect our access to or the cost of funding, affecting our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, or fund asset growth and new business initiatives at a reasonable cost, in a timely manner and without adverse consequences.

Although we maintain a liquid asset portfolio and have implemented strategies to maintain sufficient and diverse sources of funding to accommodate planned as well as unanticipated changes in assets, liabilities, and off-balance sheet commitments under various economic conditions (including reducing our capacity of wholesale funding sources), a substantial, unexpected or prolonged change in the level or cost of liquidity could have a material adverse effect on us. If the cost effectiveness or the availability of supply in these credit markets is reduced for a prolonged period of time, our funding needs may require us to access funding and manage liquidity by other means. These alternatives may include generating client deposits, securitizing or selling loans, extending the maturity of wholesale borrowings, borrowing under certain secured borrowing arrangements, using relationships developed with a variety of fixed income investors, and further managing loan growth and investment opportunities. These alternative means of funding may result in an increase to the overall cost of funds and may not be available under stressed conditions, which would cause us to liquidate a portion of our liquid asset portfolio to meet any funding needs.

Our credit ratings affect our liquidity position.

The rating agencies regularly evaluate the securities of KeyCorp and KeyBank, and their ratings of our long-term debt and other securities are based on a number of factors, including our financial strength, ability to generate earnings, and other factors. Some of these factors are not entirely within our control, such as conditions affecting the financial services industry and the economy and changes in rating methodologies as a result of the Dodd-Frank Act. We may not be able to maintain our current credit ratings. Following Key's announced acquisition of First Niagara in October 2015, S&P and Fitch affirmed Key's ratings but changed the outlook to negative. Moody's placed Key's ratings under review for downgrade. The Moody's review could be outstanding beyond the targeted merger completion date. A rating downgrade of the securities of KeyCorp or KeyBank could

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adversely affect our access to liquidity and could significantly increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us, reducing our ability to generate income.

V. Market Risk

A reversal of the U.S. economic recovery and a return to volatile or recessionary conditions in the U.S. or abroad could negatively affect our business or our access to capital markets.

A worsening of economic and market conditions, downside shocks, or a return to recessionary economic conditions could result in adverse effects on Key and others in the financial services industry. Additionally, the prolonged low-interest rate environment, despite a generally improving economy, has presented a challenge for Key and affected our business and financial performance. The low-interest rate environment may persist for some time even as the economy continues to improve, and may continue to have a negative impact on our performance.

In particular, we could face some of the following risks, and other unforeseeable risks, in connection with a downturn in the economic and market environment or in the face of downside shocks or a recession, whether in the United States or internationally:

- ι A loss of confidence in the financial services industry and the equity markets by investors, placing pressure on the price of Key's common shares or decreasing the credit or liquidity available to Key;
- ι A decrease in consumer and business confidence levels generally, decreasing credit usage and investment or increasing delinquencies and defaults;
- ι A decrease in household or corporate incomes, reducing demand for Key's products and services;
- ι A decrease in the value of collateral securing loans to Key's borrowers or a decrease in the quality of Key's loan portfolio, increasing loan charge-offs and reducing Key's net income;
- ι A decrease in our ability to liquidate positions at acceptable market prices;
- ι The extended continuation of the current low-interest rate environment, continuing or increasing downward pressure to our net interest income;
- ι A decrease in the accuracy and viability of our quantitative models;
- ι An increase in competition and consolidation in the financial services industry;

- ι Increased concern over and scrutiny of the capital and liquidity levels of financial institutions generally, and those of our transaction counterparties specifically;

- ι A decrease in confidence in the creditworthiness of the United States or other governments whose securities we hold; and

- ι An increase in limitations on or the regulation of financial services companies like Key.

We are subject to interest rate risk, which could adversely affect net interest income.

Our earnings are largely dependent upon our net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, the competitive environment within our markets, consumer preferences for specific loan and deposit products and policies of various governmental and regulatory agencies, in particular, the Federal Reserve. Changes in monetary policy, including changes in interest rate controls being applied by the Federal Reserve, could influence the amount of interest we receive on loans

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and securities, the amount of interest we pay on deposits and borrowings, our ability to originate loans and obtain deposits, and the fair value of our financial assets and liabilities. If the interest we pay on deposits and other borrowings increases at a faster rate than the interest we receive on loans and other investments, net interest income, and therefore our earnings, would be adversely affected. Conversely, earnings could also be adversely affected if the interest we receive on loans and other investments falls more quickly than the interest we pay on deposits and other borrowings.

Our methods for simulating and analyzing our interest rate exposure are discussed more fully under the heading Risk Management Management of interest risk exposure found in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.

Our profitability depends upon economic conditions in the geographic regions where we have significant operations and on certain market segments with which we conduct significant business.

We have concentrations of loans and other business activities in geographic regions where our bank branches are located Pacific; Rocky Mountains; Indiana; West Ohio/Michigan; East Ohio; Western New York; Eastern New York; and New England and potential exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery has been experienced unevenly in the various regions where we operate, and continued improvement in the overall U.S. economy may not result in similar improvement, or any improvement at all, in the economy of any particular geographic region. Adverse conditions in a geographic region such as inflation, unemployment, recession, natural disasters, or other factors beyond our control could impact the ability of borrowers in these regions to repay their loans, decrease the value of collateral securing loans made in these regions, or affect the ability of our customers in these regions to continue conducting business with us.

Additionally, a significant portion of our business activities are concentrated within the real estate, healthcare, and utilities market segments. The profitability of some of these market segments depends upon the health of the overall economy, seasonality, the impact of regulation, and other factors that are beyond our control and may be beyond the control of our customers in these market segments.

An economic downturn in one or more geographic regions where we conduct our business, or any significant or prolonged impact on the profitability of one or more of the market segments with which we conduct significant business activity, could adversely affect the demand for our products and services, the ability of our customers to repay loans, the value of the collateral securing loans, and the stability of our deposit funding sources.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. We have exposure to many different industries and counterparties in the financial services industries, and we routinely execute transactions with such counterparties, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by one or more financial services institutions have led to, and may cause, market-wide liquidity problems and losses. Many of our transactions with other financial institutions expose us to credit risk in the event of default of a counterparty or client. In addition, our credit risk may be affected when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivatives exposure due us.

Table of Contents**VI. Reputation Risk****Damage to our reputation could significantly harm our businesses.**

Our ability to attract and retain customers, clients, investors, and highly-skilled management and employees is affected by our reputation. Public perception of the financial services industry has declined as a result of the Great Recession. We face increased public and regulatory scrutiny resulting from the financial crisis and economic downturn. Significant harm to our reputation can also arise from other sources, including employee misconduct, actual or perceived unethical behavior, litigation or regulatory outcomes, failing to deliver minimum or required standards of service and quality, compliance failures, disclosure of confidential information, significant or numerous failures, interruptions or breaches of our information systems, and the activities of our clients, customers and counterparties, including vendors. Actions by the financial services industry generally or by certain members or individuals in the industry may have a significant adverse effect on our reputation. We could also suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The actual or perceived failure to adequately address conflicts of interest could affect the willingness of clients to deal with us, which could adversely affect our businesses.

VII. Strategic Risk**We may not realize the expected benefits of our strategic initiatives.**

Our ability to compete depends on a number of factors, including among others our ability to develop and successfully execute our strategic plans and initiatives. Our strategic priorities include growing profitably and maintaining financial strength; effectively managing risk and reward; engaging a high-performing, talented, and diverse workforce; and embracing the changes required by our clients and the marketplace. Acquiring and expanding customer relationships, including by cross-selling additional or new products to them, is also very important to our business model and our ability to grow revenue and earnings. Our inability to execute on or achieve the anticipated outcomes of our strategic priorities may affect how the market perceives us and could impede our growth and profitability.

We operate in a highly competitive industry.

We face substantial competition in all areas of our operations from a variety of competitors, some of which are larger and may have more financial resources than us. Our competitors primarily include national and super-regional banks as well as smaller community banks within the various geographic regions in which we operate. We also face competition from many other types of financial institutions, including, without limitation, savings associations, credit unions, mortgage banking companies, finance companies, mutual funds, insurance companies, investment management firms, investment banking firms, broker-dealers and other local, regional, national, and global financial services firms. In addition, technology has lowered barriers to entry and made it possible for nonbanks to offer products and services traditionally provided by banks. Mergers and acquisitions have led to increased concentration in the banking industry, placing added competitive pressure on Key's core banking products and services. We expect the competitive landscape of the financial services industry to become even more intensified as a result of legislative, regulatory, structural, and technological changes.

Our ability to compete successfully depends on a number of factors, including: our ability to develop and execute strategic plans and initiatives; our ability to develop, maintain, and build long-term customer relationships based on quality service and competitive prices; our ability to develop competitive products and technologies demanded by our customers, while maintaining our high ethical standards and assets safe and sound; our ability to attract, retain, and

develop a strong employee workforce; and industry and general economic trends. Increased

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competition in the financial services industry, and our failure to perform in any of these areas, could significantly weaken our competitive position, which could adversely affect our growth and profitability.

Maintaining or increasing our market share depends upon our ability to adapt our products and services to evolving industry standards and consumer preferences, while maintaining competitive prices.

The continuous, widespread adoption of new technologies, including internet services and mobile devices (including smartphones and tablets), requires us to evaluate our product and service offerings to ensure they remain competitive. Our success depends, in part, on our ability to adapt our products and services, as well as our distribution of them, to evolving industry standards and consumer preferences. New technologies have altered consumer behavior by allowing consumers to complete transactions such as paying bills or transferring funds directly without the assistance of banks. New products allow consumers to maintain funds in brokerage accounts or mutual funds that would have historically been held as bank deposits. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income, as well as the loss of customer deposits and related income generated from those deposits.

The increasing pressure from our competitors, both bank and nonbank, to keep pace and adopt new technologies and products and services requires us to incur substantial expense. We may be unsuccessful in developing or introducing new products and services, modifying our existing products and services, adapting to changing consumer preferences and spending and saving habits, achieving market acceptance or regulatory approval, sufficiently developing or maintaining a loyal customer base or offering products and services at prices lower than the prices offered by our competitors. These risks may affect our ability to achieve growth in our market share and could reduce both our revenue streams from certain products and services and our revenues from our net interest income.

We may not be able to attract and retain skilled people.

Our success depends, in large part, on our ability to attract, retain, motivate, and develop key people. Competition for the best people in most of our business activities is ongoing and can be intense, and we may not be able to retain or hire the people we want or need to serve our customers. To attract and retain qualified employees, we must compensate these employees at market levels. Typically, those levels have caused employee compensation to be our greatest expense.

Various restrictions on compensation of certain executive officers were imposed under the Dodd-Frank Act and other legislation and regulations. In addition, our incentive compensation structure is subject to review by the Federal Reserve, who may identify deficiencies in the structure, causing us to make changes that may affect our ability to offer competitive compensation to these individuals. Our ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

Potential acquisitions or strategic partnerships may disrupt our business and dilute shareholder value.

On October 30, 2015, we entered into an Agreement and Plan of Merger with First Niagara, pursuant to which First Niagara will merge with and into KeyCorp with KeyCorp continuing as the surviving company. Acquiring other banks, bank branches, or other businesses involves various risks commonly associated with acquisitions or partnerships, including exposure to unknown or contingent liabilities of the target company; diversion of our management's time and attention; significant integration risk with respect to employees, accounting systems, and technology platforms; our inability to realize anticipated revenue and cost benefits and synergies; increased regulatory scrutiny; and, the possible loss of key employees and customers of the target company. We regularly evaluate merger and acquisition and strategic partnership opportunities and conduct due diligence activities related to possible

transactions. As a result, mergers or acquisitions involving cash, debt or equity securities, such as the First Niagara merger, may occur at any time. Acquisitions may involve the payment of a premium over book and market values. Therefore, some dilution of our tangible book value and net income per common share

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could occur in connection with any future transaction. Additionally, if an acquisition, including the First Niagara merger, or strategic partnership were to occur, we may fail to realize the expected revenue increases, cost savings, increases in geographic or product presence, or other projected benefits.

We may not be able to complete the acquisition of First Niagara.

Before the transactions contemplated in the merger agreement with First Niagara can be completed, various approvals must be obtained from the bank regulatory and other governmental authorities. In deciding whether to grant antitrust or regulatory clearances, the relevant governmental entities will consider a variety of factors, including the regulatory standing of each of the parties and the effect of the merger on competition within their relevant jurisdiction. An adverse development in either party's regulatory standing or other factors could result in an inability to obtain one or more of the required regulatory approvals or delay their receipt. The terms and conditions of the approvals that are granted may impose requirements, limitations or costs, or place restrictions on the conduct of the combined company's business or require branch divestitures. The level of divestitures required by the relevant governmental entities might be unacceptable to the parties, or could delay the closing of the merger or diminish the anticipated benefits of the merger. If required by regulatory authorities, we will divest branches in certain areas in a manner sufficient to eliminate such regulatory authorities' competitive concerns. Despite the parties' commitments to use their reasonable best efforts to comply with conditions imposed by regulatory entities, under the terms of the merger agreement, KeyCorp and First Niagara will not be required to take actions that would be more-likely-than-not to have a material and adverse effect on KeyCorp and its subsidiaries, taken as a whole, giving effect to the merger (measured on a scale relative to First Niagara and its subsidiaries, taken as a whole). There can be no assurance that regulators will not impose conditions, terms, obligations, or restrictions and that such conditions, terms, obligations, or restrictions will not have the effect of delaying the completion of the merger, imposing additional material costs on or materially limiting the revenues of the combined company following the merger or otherwise reduce the anticipated benefits of the merger if the merger were consummated successfully within the expected timeframe. In addition, we cannot provide assurance that any such conditions, terms, obligations, or restrictions will not result in the delay or abandonment of the merger. Additionally, the completion of the merger is conditioned on the absence of certain orders, injunctions, or decrees by any court or regulatory agency of competent jurisdiction that would prohibit or make illegal the completion of the merger.

In addition to the various regulatory approvals, the merger agreement is subject to a number of other conditions that must be fulfilled in order to complete the merger. Those conditions include, but are not limited to: approval of the merger agreement by First Niagara and KeyCorp shareholders, as well as approval of the amendment to KeyCorp's articles by KeyCorp's shareholders, absence of orders prohibiting completion of the merger, effectiveness of the registration statement filed in connection with the transaction, and approval of the KeyCorp common shares and the new KeyCorp preferred stock to be issued to First Niagara common and preferred stockholders, as applicable, for listing on the NYSE. The conditions to the closing of the merger may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the merger agreement at any time, before or after shareholder approval, or KeyCorp or First Niagara may elect to terminate the merger agreement in certain other circumstances.

Several putative class action lawsuits have been filed by purported First Niagara stockholders alleging claims against First Niagara, the members of First Niagara's Board of Directors, and KeyCorp. Among other remedies, the purported plaintiffs seek to enjoin the merger. The outcome of any such litigation is uncertain. If the cases or any additional cases filed in connection with the merger are not resolved, these lawsuits could prevent or delay the completion of the merger and result in significant costs to First Niagara and/or KeyCorp, including any costs associated with the indemnification of directors and officers.

We may fail to realize the anticipated benefits of the merger with First Niagara.

KeyCorp and First Niagara have operated and, until the completion of the merger, will continue to operate, independently. The success of the merger, including anticipated benefits and cost savings, will depend on, among

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other things, our ability to combine the businesses of KeyCorp and First Niagara in a manner that permits growth opportunities, including, among other things, enhanced revenues and revenue synergies, an expanded market reach and operating efficiencies, and that does not materially disrupt the existing customer relationships of KeyCorp or First Niagara nor result in decreased revenues due to loss of customers. If we are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could have an adverse effect on the surviving corporation's business, financial condition, operating results, and prospects. In addition, it is possible that the integration process could result in the disruption of our ongoing businesses or cause inconsistencies in standards, controls, procedures, and policies that adversely affect our ability to maintain relationships with customers and employees or to achieve the anticipated benefits of the merger.

We will incur transaction and integration costs in connection with the First Niagara merger.

We have incurred and expect to incur significant, nonrecurring costs in connection with consummating the First Niagara merger. In addition, we will incur integration costs following the completion of the merger as we integrate our business and First Niagara's business, including facilities and systems consolidation costs and employment-related costs. There can be no assurances that the expected benefits and efficiencies related to the integration of the businesses will be realized to offset these transaction and integration costs over time. We may also incur additional costs to maintain employee morale and to retain key employees. We will also incur significant legal, financial advisor, accounting, banking and consulting fees, fees relating to regulatory filings and notices, SEC filing fees, printing and mailing fees, and other costs associated with the merger. Some of these costs are payable regardless of whether the merger is completed.

VIII. Model Risk**We rely on quantitative models to manage certain accounting, risk management and capital planning functions.**

We use quantitative models to help manage certain aspects of our business and to assist with certain business decisions, including estimating probable loan losses, measuring the fair value of financial instruments when reliable market prices are unavailable, estimating the effects of changing interest rates and other market measures on our financial condition and results of operations, managing risk, and for capital planning purposes (including during the CCAR capital planning process). Our modeling methodologies rely on many assumptions, historical analyses and correlations. These assumptions may be incorrect, particularly in times of market distress, and the historical correlations on which we rely may no longer be relevant. Additionally, as businesses and markets evolve, our measurements may not accurately reflect this evolution. Even if the underlying assumptions and historical correlations used in our models are adequate, our models may be deficient due to errors in computer code, bad data, misuse of data, or the use of a model for a purpose outside the scope of the model's design.

As a result, our models may not capture or fully express the risks we face, may suggest that we have sufficient capitalization when we do not, or may lead us to misjudge the business and economic environment in which we will operate. If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management, capital planning, or other business or financial decisions. Furthermore, strategies that we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable, and as a result, we may realize losses or other lapses.

Banking regulators continue to focus on the models used by banks and bank holding companies in their businesses. The failure or inadequacy of a model may result in increased regulatory scrutiny on us or may result in an enforcement action or proceeding against us by one of our regulators.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents**ITEM 2. PROPERTIES**

The headquarters of KeyCorp and KeyBank are located in Key Tower at 127 Public Square, Cleveland, Ohio 44114-1306. At December 31, 2015, Key leased approximately 477,781 square feet of the complex, encompassing the first 12 floors and the 54th through 56th floors of the 57-story Key Tower. In addition, Key owned two buildings in Brooklyn, Ohio, with office space that it operated from and leased out totaling approximately 563,466 square feet at December 31, 2015. As of the same date, KeyBank owned 434 branches and leased 532 branches. The lease terms for applicable branches are not individually material, with terms ranging from month-to-month to 99 years from inception.

Branches and ATMs by Region

	Rocky		West Ohio/		Western	Eastern	New		
	Pacific	Mountains	Indiana	Michigan	East Ohio	New York	New York	England	Total
Branches	246	126	61	98	148	80	144	63	966
ATMs	290	158	68	121	251	110	180	78	1,256

ITEM 3. LEGAL PROCEEDINGS

The information presented in the Legal Proceedings section of Note 20 (Commitments, Contingent Liabilities and Guarantees) of the Notes to Consolidated Financial Statements is incorporated herein by reference.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. Where it is probable that we will incur a loss and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on a quarterly basis. Where a loss is not probable or the amount of the loss is not estimable, we have not accrued legal reserves, consistent with applicable accounting guidance. Based on information currently available to us, advice of counsel, and available insurance coverage, we believe that our established reserves are adequate and the liabilities arising from the legal proceedings will not have a material adverse effect on our consolidated financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter or a combination of matters may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

The dividend restrictions discussion in the Supervision and Regulation section in Item 1. Business of this report, and the disclosures included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements contained in Item 8 of this report, are incorporated herein by reference:

	Page(s)
Discussion of our common shares, shareholder information and repurchase activities in the section captioned Capital Common shares outstanding	71
Presentation of annual and quarterly market price and cash dividends per common share and discussion of dividends in the section captioned Capital Dividends	36, 71, 100
Discussion of dividend restrictions in the sections captioned Supervision and Regulation Regulatory capital and liquidity Dividend restrictions and Liquidity risk management Liquidity for KeyCorp, Note 3 (Restrictions on Cash, Dividends and Lending Activities), and Note 22 (Shareholders Equity)	14, 88, 136, 216
KeyCorp common share price performance (2011-2015) graph	72
From time to time, KeyCorp or its principal subsidiary, KeyBank, may seek to retire, repurchase, or exchange outstanding debt of KeyCorp or KeyBank, and capital securities or preferred stock of KeyCorp, through cash purchase, privately negotiated transactions, or otherwise. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, and other factors. The amounts involved may be material.	

As authorized by our Board and pursuant to our 2015 capital plan submitted to and not objected to by the Federal Reserve, we have authority to repurchase up to \$725 million of our common shares in the open market or through privately negotiated transactions. Share repurchases under the 2015 capital plan began in the second quarter of 2015 and included repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under our 2015 capital plan were suspended in the fourth quarter of 2015 due to the pending merger with First Niagara.

The following table summarizes our repurchases of our common shares for the three months ended December 31, 2015. Common shares deemed surrendered by employees in connection with our stock compensation and benefit plans comprise the entire amount of share repurchases as disclosed in the table.

Month	Total number of shares repurchased (a)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that yet be purchased as part of publicly announced plans or programs
31	2,720	\$ 13.10		38,000
30	69	13.32		36,000
31	6,484	12.99		35,800

9,273 \$ 13.02

- (a) Includes common shares deemed surrendered by employees in connection with our stock compensation and benefit plans to satisfy tax obligations. There were no common shares repurchased in the open market during the fourth quarter of 2015.

- (b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares as follows: on October 31, 2015, at \$12.42; on November 30, 2015, at \$13.11; and on December 31, 2015, at \$13.19.

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ITEM 6. SELECTED FINANCIAL DATA

The information included under the caption "Selected Financial Data" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 36 is incorporated herein by reference.

Table of Contents**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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Throughout the Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations (the MD&A), we use certain acronyms and abbreviations. These terms are defined in Note 1 (Summary of Significant Accounting Policies), which begins on page 119.

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Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for each of the past three years. Some tables include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections that we refer to are presented in the table of contents.

Terminology

Throughout this discussion, references to Key, we, our, us, and similar terms refer to the consolidated entity consisting of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers solely to KeyCorp's subsidiary bank, KeyBank National Association. KeyBank (consolidated) refers to the consolidated entity consisting of KeyBank and its subsidiaries.

We want to explain some industry-specific terms at the outset so you can better understand the discussion that follows.

- ⌚ We use the phrase *continuing operations* in this document to mean all of our businesses other than the education lending business, Victory, and Austin. The education lending business and Austin have been accounted for as *discontinued operations* since 2009. Victory was classified as a *discontinued operation* in our first quarter 2013 financial reporting as a result of the sale of this business as announced on February 21, 2013, and closed on July 31, 2013.
- ⌚ Our *exit loan portfolios* are separate from our *discontinued operations*. These portfolios, which are in a run-off mode, stem from product lines we decided to cease because they no longer fit with our corporate strategy. These exit loan portfolios are included in *Other Segments*.
- ⌚ We engage in *capital markets activities* primarily through business conducted by our Key Corporate Bank segment. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients' financing needs and to mitigate certain risks), and conduct transactions in foreign currencies (both to accommodate clients' needs and to benefit from fluctuations in exchange rates).
- ⌚ For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC's *total risk-based capital* must qualify as *Tier 1 capital*. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described under the heading "Regulatory capital and liquidity" in the section entitled "Supervision and Regulation" in Item 1 of this report, the regulators are required to conduct a supervisory capital assessment of all BHCs with assets of at least \$50 billion, including KeyCorp. As part of this capital adequacy review, banking regulators evaluated a component of Tier 1 capital, known as *Tier 1 common equity*, using the definitions of Tier 1 capital and total risk-weighted assets that were in effect in 2014, as well as a transition plan for full implementation of the *Regulatory Capital Rules*. The section entitled "Capital adequacy" in this MD&A provides more information on total capital, Tier 1 capital, Tier 1 common equity, and

the Regulatory Capital Rules, including *Common Equity Tier 1*, and describes how the three measures are calculated.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 (Summary of Significant Accounting Policies).

Table of Contents**Figure 1. Selected Financial Data**

						Compound Annual Rate of Change
<i>dollars in millions, except per share amounts</i>	2015	2014	2013	2012	2011	(2011-2015)
YEAR ENDED DECEMBER 31,						
Interest income	\$ 2,622	\$ 2,554	\$ 2,620	\$ 2,705	\$ 2,889	(1.9)%
Interest expense	274	261	295	441	622	(15.1)
Net interest income	2,348	2,293	2,325	2,264	2,267	.7
Provision for credit losses	166	57	138	213	(88)	N/M
Noninterest income	1,880	1,797	1,766	1,856	1,688	2.2
Noninterest expense	2,840	2,761	2,812	2,834	2,712	.9
Income (loss) from continuing operations before income taxes	1,222	1,272	1,141	1,073	1,331	(1.7)
Income (loss) from continuing operations attributable to Key	915	939	870	835	955	(.9)
Income (loss) from discontinued operations, net of taxes ^(a)	1	(39)	40	23	(35)	N/M
Net income (loss) attributable to Key	916	900	910	858	920	(.1)
Income (loss) from continuing operations attributable to Key common shareholders	892	917	847	813	848	1.0
Income (loss) from discontinued operations, net of taxes ^(a)	1	(39)	40	23	(35)	N/M
Net income (loss) attributable to Key common shareholders	893	878	887	836	813	1.9
PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	\$ 1.06	\$ 1.05	\$.93	\$.87	\$.91	3.1%
Income (loss) from discontinued operations, net of taxes ^(a)		(.04)	.04	.02	(.04)	N/M
Net income (loss) attributable to Key common shareholders ^(b)	1.06	1.01	.98	.89	.87	4.0
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	\$ 1.05	\$ 1.04	\$.93	\$.86	\$.91	2.9%
Income (loss) from discontinued operations, net of taxes assuming dilution ^(a)		(.04)	.04	.02	(.04)	N/M
	1.05	.99	.97	.89	.87	3.8

Net income (loss) attributable to Key common shareholders assuming dilution ^(b)						
Cash dividends paid	.29	.25	.215	.18	.10	23.7%
Book value at year end	12.51	11.91	11.25	10.78	10.09	4.4
Tangible book value at year end	11.22	10.65	10.11	9.67	9.11	4.3
Market price at year end	13.19	13.90	13.42	8.42	7.69	11.4
Dividend payout ratio	27.4%	24.8%	21.9%	20.2%	11.49%	N/A
Weighted-average common shares outstanding (000)						
	836,846	871,464	906,524	938,941	931,934	(2.1)
Weighted-average common shares and potential common shares outstanding (000) ^(c)						
	844,489	878,199	912,571	943,259	935,801	(2.0)
AT DECEMBER 31.						
Loans	\$ 59,876	\$ 57,381	\$ 54,457	\$ 52,822	\$ 49,575	3.8%
Earning assets	83,780	82,269	79,467	75,055	73,729	2.6
Total assets	95,133	93,821	92,934	89,236	88,785	1.4
Deposits	71,046	71,998	69,262	65,993	61,956	2.8
Long-term debt	10,186	7,875	7,650	6,847	9,520	1.4
Key common shareholders equity	10,456	10,239	10,012	9,980	9,614	1.7
Key shareholders equity	10,746	10,530	10,303	10,271	9,905	1.6
PERFORMANCE RATIOS FROM CONTINUING OPERATIONS						
Return on average total assets	.99%	1.08%	1.03%	1.03%	1.16%	N/A
Return on average common equity	8.63	9.01	8.48	8.25	9.17	N/A
Return on average tangible common equity ^(d)	9.64	10.04	9.45	9.16	10.20	N/A
Net interest margin (TE)	2.88	2.97	3.12	3.21	3.16	N/A
Cash efficiency ratio ^(d)	65.9	66.2	67.3	67.8	68.0	N/A
PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS						
Return on average total assets	.97%	.99%	1.02%	.99%	1.04%	N/A
Return on average common equity	8.64	8.63	8.88	8.48	8.79	N/A
Return on average tangible common equity ^(d)	9.65	9.61	9.90	9.42	9.78	N/A
Net interest margin (TE)	2.85	2.94	3.02	3.13	3.09	N/A
Loan to deposit ^(e)	87.8	84.6	83.8	85.8	87.0	N/A
CAPITAL RATIOS AT DECEMBER 31,						
Key shareholders equity to assets	11.30%	11.22%	11.09%	11.51%	11.16%	N/A
Key common shareholders equity to assets	10.99	10.91	10.78	11.18	10.83	N/A
Tangible common equity to tangible assets ^(d)	9.98	9.88	9.80	10.15	9.88	N/A
Common Equity Tier 1 ^(d)	10.94	N/A	N/A	N/A	N/A	N/A
Tier 1 common equity ^(d)	N/A	11.17	11.22	11.36	11.26	N/A
Tier 1 risk-based capital	11.35	11.90	11.96	12.15	12.99	N/A
Total risk-based capital	12.97	13.89	14.33	15.13	16.51	N/A
Leverage	10.72	11.26	11.11	11.41	11.79	N/A

TRUST AND BROKERAGE**ASSETS**

Assets under management	\$ 33,983	\$ 39,157	\$ 36,905	\$ 34,744	\$ 34,255	N/A
Nonmanaged and brokerage assets	47,681	49,147	47,418	35,550	30,639	N/A

OTHER DATA

Average full-time-equivalent employees	13,483	13,853	14,783	15,589	15,381	(2.6)%
Branches	966	994	1,028	1,088	1,058	(1.8)

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

(c) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

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- (d) See Figure 4 entitled "GAAP to Non-GAAP Reconciliations," which presents the computations of certain financial measures related to tangible common equity, Common Equity Tier 1 (compliance date of January 1, 2015, under the Regulatory Capital Rules), Tier 1 common equity (prior to January 1, 2015), and cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.
- (e) Represents period-end consolidated total loans and loans held for sale (excluding education loans in securitizations trusts for periods prior to 2014) divided by period-end consolidated total deposits (excluding deposits in foreign office).

Economic overview

The economy continued its modest recovery in 2015, with overall GDP of 2.4% unchanged from the prior year. 2015 was a volatile year, with the first quarter starting at a slow pace, then growth picking up over the next six months before decelerating again in the fourth quarter. Throughout 2015, slowing emerging market growth, a strengthening U.S. dollar, and falling demand for U.S. exports were all significant factors that held back growth. Additionally, oil prices dropped 32% over the year, giving consumers a boost in discretionary income but resulting in a sharp decline in energy-related investments. The stock market disappointed in 2015, with the S&P 500 equity index dropping 1%, compared to an 11% increase in 2014, largely due to uncertainty around Chinese equity markets and oil and commodity prices. Globally, the economic recovery slowed; the European Central Bank maintained an easy money policy as their recovery stalled and the risk of deflation rose, while emerging markets struggled in the face of low commodity prices and a weakening Chinese economy.

For 2015, 2.7 million new jobs were added in the U.S. The unemployment rate fell further, from 5.6% at December 31, 2014, to 5.0% at December 31, 2015. While weak labor force participation was a factor, solid employment gains also drove the decline. Slack remains, however, reflected in underwhelming wage growth for much of the year. Consumers preferred to solidify their balance sheets in 2015, as the savings rate rose to 5.5% in December 2015 while consumer spending, although still solid, declined to 2.6%. By December 2015, headline inflation remained at .7%, mainly due to a further decline in energy prices. Core inflation also remained low throughout the year, ending 2015 at 2.1%, up from 1.6% at the end of 2014.

As the economy expanded further and the labor market continued to strengthen, the housing market gained traction, with slight improvement across nearly all metrics in 2015. While household formation is normalizing, a declining home ownership rate continues to weigh on sales growth. Existing home sales finished 2015 at a seasonally adjusted annual rate of 5.46 million, up 7.7% from December 2014. New home sales ended the year on a solid note, reaching a seasonally adjusted annual rate of 544,000 in December 2015, up 9.9% from 2014. Price appreciation picked up modestly, with the median price for existing homes up 6.3% year-over-year in December 2015, compared to 4.6% in 2014. Housing starts accelerated further, up 6.4% from December 2014, driven by gains in both single and multi-family construction of 6.1% and 7.0%, respectively.

The Federal Reserve remained active and accommodative for most of 2015. The Federal Open Market Committee (FOMC) decided to maintain the existing policy of reinvesting principal payments to help accommodate financial conditions throughout the year. In addition, the FOMC kept the federal funds target rate near zero until December 2015, lifting the target rate by 25 basis points, citing an improving labor market and the expectation that inflation would return to its 2% objective over the medium term. The 10-year U.S. Treasury yield began the year at 2.2%, and dipped to as low as 1.7% for the first quarter of 2015, driven by disappointing weather-related economic data. In the third quarter of 2015, with rising speculation around higher interest rates, the 10-year U.S. Treasury yield began to increase, reaching 2.4%, and ended the year at 2.3%, as interest rates eased (even after the FOMC raised rates) due to

concerns of slower global growth, lower energy prices, and equity market volatility.

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Our long-term financial goals are as follows:

- ι Improve balance sheet efficiency by targeting a loan-to-deposit ratio range of 90% to 100%;
- ι Maintain a moderate risk profile by targeting a net loan charge-offs to average loans ratio and provision for credit losses to average loans ratio in the range of .40% to .60%;
- ι Grow high quality and diverse revenue streams by targeting a net interest margin in the range of 3.00% to 3.25% and a ratio of noninterest income to total revenue of greater than 40%;
- ι Generate positive operating leverage and target a cash efficiency ratio of less than 60%; and

ι Maintain disciplined capital management and target a return on average assets in the range of 1.00% to 1.25%. Figure 2 shows the evaluation of our long-term financial goals for the three months and year ended December 31, 2015.

Figure 2. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics ^(a)	Year ended		
		4Q15	December 31, 2015	Targets
Balance sheet efficiency	Loan-to-deposit ratio ^(b)	88 %	88 %	90 - 100 %
Moderate risk profile	Net loan charge-offs to average loans	.25 %	.24 %	.40 - .60 %
	Provision for credit losses to average loans	.30 %	.28 %	
High quality, diverse	Net interest margin	2.87 %	2.88 %	3.00 - 3.25 %
revenue streams	Noninterest income to total revenue	44 %	44 %	> 40 %
Positive operating leverage	Cash efficiency ratio ^(c)	66.4 %	65.9 %	< 60 %
Financial Returns	Return on average assets	.97 %	.99 %	1.00 - 1.25 %

(a) Calculated from continuing operations, unless otherwise noted.

(b) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits (excluding deposits in foreign office).

(c) Excludes intangible asset amortization; non-GAAP measure: see Figure 4 for reconciliation.

Corporate strategy

We remain committed to enhancing long-term shareholder value by continuing to execute our relationship business model, growing our franchise, and being disciplined in our management of capital. Our 2015-2016 strategic focus is to grow by building enduring relationships through client-focused solutions and service. We intend to pursue this strategy by growing profitably; acquiring and expanding targeted client relationships; effectively managing risk and rewards; maintaining financial strength; and engaging, retaining, and inspiring our diverse and high-performing workforce. These strategic priorities for enhancing long-term shareholder value are described in more detail below.

- i. **Grow profitably** We will continue to focus on generating positive operating leverage by growing revenue and creating a more efficient operating environment. We expect our relationship business model to keep generating organic growth as it helps us expand engagement with existing clients and attract new customers. We will leverage our continuous improvement culture to create a more efficient cost structure that is aligned, sustainable, and consistent with the current operating environment and supports our relationship business model.

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- ↳ ***Acquire and expand targeted client relationships*** We have taken purposeful steps to enhance our ability to acquire and expand targeted relationships. Our local delivery of a broad product set and industry expertise allows us to match client needs and market conditions to deliver the best solutions.
- ↳ ***Effectively manage risk and rewards*** Our risk management activities are focused on ensuring we properly identify, measure, and manage risks across the entire company to maintain safety and soundness and maximize profitability.
- ↳ ***Maintain financial strength*** With the foundation of a strong balance sheet, we will remain focused on sustaining strong reserves, liquidity and capital. We will work closely with our Board and regulators to manage capital to support our clients' needs and drive long-term shareholder value. Our capital remains a competitive advantage for us.
- ↳ ***Engage a high-performing, talented, and diverse workforce*** Every day our employees provide our clients with great ideas, extraordinary service, and smart solutions. We will continue to engage our high-performing, talented, and diverse workforce to create an environment where they can make a difference, own their careers, be respected, and feel a sense of pride.

Strategic developments

We initiated the following actions during 2015 to support our corporate strategy:

- ↳ We continue to focus on growing our businesses and remain committed to improving productivity and efficiency. During 2015, we generated positive operating leverage, with pre-provision net revenue up 4.7% from 2014. Net interest income benefited from solid loan growth, driven by a 12% increase in average commercial, financial and agricultural loans. Noninterest income benefited from increases in several of our core fee-based businesses: investment banking and debt placement fees, which had record high fees in 2015 due to stronger financial advisory fees and loan syndications, trust and investment services income, corporate services income, and cards and payments income. Although noninterest expense increased from prior year, this increase was primarily due to the ongoing investments we have made in our businesses to drive revenue growth, including the addition of client-facing personnel across our franchise.
- ↳ Our strong risk management practices and a more favorable credit environment resulted in another year of solid credit quality trends. For 2015, net loan charge-offs were .24% of average loans and the provision for credit losses was .28% of average loans, both well below our targeted range.
- ↳ We also made progress on other strategic initiatives. On October 30, 2015, we announced that KeyCorp entered into a definitive agreement and plan of merger to acquire all of the outstanding capital stock of First Niagara. The merger is currently expected to be completed during the third quarter of 2016 and is subject to customary closing conditions including the approval of regulators and the shareholders of both KeyCorp and First Niagara. This merger is expected to accelerate our transformation into a high-performing regional bank, generate attractive financial returns, provide significant revenue opportunities, and create a complementary business mix and a more

balanced franchise.

- ⌚ Capital management remained a priority in 2015. On March 11, 2015, the Federal Reserve announced that it did not object to our 2015 capital plan submitted as part of the annual CCAR process. The 2015 capital plan included a common share repurchase program of up to \$725 million, including repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2015 capital plan began in the second quarter of 2015. During the second and third quarters of 2015, we completed \$252 million of common share repurchases under this authorization. In addition, we completed \$208 million of common share repurchases in the first quarter of 2015 under our 2014 capital plan for a total of \$460 million of open market common share repurchases during 2015. We suspended our existing share repurchase program in the fourth quarter of 2015 due to the pending merger with First Niagara. We plan to include share repurchases in the upcoming 2016 CCAR submission.

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z The Board declared a quarterly dividend of \$.065 per common share for the first quarter of 2015. Our 2015 capital plan proposed a 15% increase in our quarterly common share dividend to \$.075 per share, which was approved by our Board in May 2015. Consistent with our 2015 capital plan, we made a dividend payment of \$.075 per common share for each of the second, third, and fourth quarters of 2015, which brought our annual dividend to \$.29 per common share for 2015. The Board will consider an additional potential increase in our quarterly common share dividend, up to \$.085 per share, in 2016 for the fifth quarter of the 2015 capital plan.

Highlights of Our 2015 Performance**Financial performance**

For 2015, we announced net income from continuing operations attributable to Key common shareholders of \$892 million, or \$1.05 per common share. These results compare to net income from continuing operations attributable to Key common shareholders of \$917 million, or \$1.04 per common share, for 2014.

Figure 3 shows our continuing and discontinued operating results for the past three years.

Figure 3. Results of Operations

Year ended December 31, <i>in millions, except per share amounts</i>	2015	2014	2013
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	\$ 915	\$ 939	\$ 870
Income (loss) from discontinued operations, net of taxes ^(a)	1	(39)	40
Net income (loss) attributable to Key	\$ 916	\$ 900	\$ 910
Income (loss) from continuing operations attributable to Key	\$ 915	\$ 939	\$ 870
Less: Dividends on Series A Preferred Stock	23	22	23
Income (loss) from continuing operations attributable to Key common shareholders	892	917	847
Income (loss) from discontinued operations, net of taxes ^(a)	1	(39)	40
Net income (loss) attributable to Key common shareholders	\$ 893	\$ 878	\$ 887
PER COMMON SHARE ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	\$ 1.05	\$ 1.04	\$.93
Income (loss) from discontinued operations, net of taxes ^(a)		(.04)	.04
Net income (loss) attributable to Key common shareholders ^(b)	\$ 1.05	\$.99	\$.97

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

Our 2016 expectations, as disclosed below, do not include the effect of the pending First Niagara merger, which is expected to be completed in the third quarter of 2016.

Our 2015 full-year results reflect success in executing our strategy by generating positive operating leverage and maintaining strong risk management and disciplined capital management.

Our taxable-equivalent net interest income for 2015 was \$2.376 billion, and the net interest margin was 2.88%. These results compare to taxable-equivalent net interest income of \$2.317 billion and a net interest margin of 2.97% for the prior year. The increase in net interest income reflects higher earning asset balances, partially offset by lower earning asset yields, which also drove the decline in the net interest margin. In 2016, we expect low-single-digit (less than 5%) growth in net interest income without the benefit of higher interest rates or mid-single-digit (4% to 6%) growth with the benefit of higher interest rates compared to the prior year.

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Our noninterest income was \$1.9 billion, up \$83 million, or 4.6%, from 2014. Investment banking and debt placement fees benefited from our business model and had a record high year, increasing \$48 million from 2014. Trust and investment services income increased \$30 million, primarily due to the full-year 2015 impact of the September 2014 acquisition of Pacific Crest Securities. Noninterest income for 2015 also included increases of \$20 million in corporate services income due to higher loan commitment fees and \$17 million in cards and payments income due to higher merchant services, purchase card, and ATM debit card fees driven by increased volume. Other income also increased \$10 million. These increases were partially offset by declines of \$27 million in net gains from principal investing and \$23 million in operating lease income and other leasing gains. In 2016, we expect mid-single-digit (4% to 6%) growth in noninterest income compared to 2015.

Our noninterest expense was \$2.8 billion, an increase of \$79 million, or 2.9%, from 2014. We recognized \$61 million of merger-, efficiency-, and pension-related charges in 2015 compared to \$80 million of efficiency- and pension-related charges in 2014. Personnel expense increased \$61 million, driven by higher incentive and stock-based compensation, employee benefits, and salaries, partially offset by lower technology contract labor and severance. Nonpersonnel expense increased \$18 million, primarily due to increases in marketing of \$8 million and computer processing of \$6 million. In 2016, we expect noninterest expense to be relatively stable (plus or minus 2%) with 2015.

Average loans totaled \$58.6 billion for 2015, compared to \$55.7 billion in 2014. Commercial, financial and agricultural loan growth of \$3.3 billion was broad-based across our commercial lines of business. Consumer loans were slightly down, as modest increases across our core consumer loan portfolio, primarily direct term loans and credit cards, were offset by run-off in our designated consumer exit portfolio. For 2016, we anticipate average loan growth in the mid-single-digit (4% to 6%) range.

Average deposits, excluding deposits in foreign office, totaled \$70.1 billion for 2015, an increase of \$2.9 billion compared to 2014. NOW and money market deposit accounts and demand deposits increased \$2 billion and \$1.9 billion, respectively, reflecting growth in the commercial mortgage servicing business and inflows from commercial and consumer clients. These increases were partially offset by run-off in certificates of deposit and other time deposits. Our consolidated loan to deposit ratio was 87.8% at December 31, 2015, compared to 84.6% at December 31, 2014.

We maintained credit discipline in 2015, and our asset quality ratios remained strong. The provision for credit losses was \$166 million for 2015 compared to \$57 million for 2014. The increase in our provision is due to the growth in our loan portfolio over the past twelve months as well as lower recoveries in 2015 compared to 2014. Net loan charge-offs were \$142 million, or .24%, of average loan balances for 2015, compared to \$113 million, or .20%, for 2014. Our nonperforming loans declined to \$387 million, or .65%, of period-end loans at December 31, 2015, compared to \$418 million, or .73%, at December 31, 2014. Our ALLL was \$796 million, or 1.33% of period-end loans, compared to \$794 million, or 1.38%, at December 31, 2014, and represented 206% and 190% coverage of nonperforming loans at December 31, 2015, and December 31, 2014, respectively. In 2016, we expect net loan charge-offs to average loans to remain below our long-term targeted range of 40 to 60 basis points and the ALLL, as a percentage of period-end loans, to remain relatively stable (plus or minus 2%, which would approximate a three basis point change) with 2015.

Our capital ratios remain strong. Our tangible common equity and Tier 1 risk-based capital ratios were 9.98% and 11.35%, respectively, at December 31, 2015, compared to 9.88% and 11.90%, respectively, at December 31, 2014. In addition, our Common Equity Tier 1 was 10.94% at December 31, 2015. We have identified four primary uses of capital:

1. Investing in our businesses, supporting our clients, and loan growth;
2. Maintaining or increasing our common share dividend;
3. Returning capital in the form of common share repurchases to our shareholders; and
4. Remaining disciplined and opportunistic about how we invest in our franchise to include selective acquisitions over time.

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Our capital management remains focused on creating value. During 2015, our full-year dividend per common share increased 16% from the prior year, and we repurchased \$460 million of common shares.

Figure 4 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity, Common Equity Tier 1, Tier 1 common equity, pre-provision net revenue, cash efficiency ratio, Common Equity Tier 1 under the Regulatory Capital Rules (estimates).

The tangible common equity ratio and the return on tangible common equity ratio have been a focus for some investors, and management believes these ratios may assist investors in analyzing Key's capital position without regard to the effects of intangible assets and preferred stock. Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve focuses its assessment of capital adequacy on a component of Tier 1 capital known as Common Equity Tier 1. Because the Federal Reserve has long indicated that voting common shareholders' equity (essentially Tier 1 risk-based capital less preferred stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Common Equity Tier 1 is consistent with existing capital adequacy categories. The Regulatory Capital Rules, described in more detail under the section Supervision and Regulation in Item 1 of this report, also make Common Equity Tier 1 a priority. The Regulatory Capital Rules change the regulatory capital standards that apply to BHCs by, among other changes, phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. Starting in 2016, our trust preferred securities will only be included in Tier 2 capital. Since analysts and banking regulators may assess our capital adequacy using tangible common equity and Common Equity Tier 1, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 4 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Figure 4 also shows the computation for and reconciliation of pre-provision net revenue, which is not formally defined by GAAP. We believe that eliminating the effects of the provision for credit losses makes it easier to analyze our results by presenting them on a more comparable basis.

The cash efficiency ratio is a ratio of two non-GAAP performance measures. Accordingly, there is no directly comparable GAAP performance measure. The cash efficiency ratio excludes the impact of our intangible asset amortization from the calculation. We believe this ratio provides greater consistency and comparability between our results and those of our peer banks. Additionally, this ratio is used by analysts and investors as they develop earnings forecasts and peer bank analysis.

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP.

Table of Contents**Figure 4. GAAP to Non-GAAP Reconciliations**

Year ended December 31,

<i>dollars in millions</i>	2015	2014	2013	2012	2011
Tangible common equity to tangible assets at period end					
Key shareholders equity (GAAP)	\$ 10,746	\$ 10,530	\$ 10,303	\$ 10,271	\$ 9,905
Less: Intangible assets ^(a)	1,080	1,090	1,014	1,027	934
Series B Preferred Stock					
Series A Preferred Stock ^(b)	281	282	282	291	291
Tangible common equity (non-GAAP)	\$ 9,385	\$ 9,158	\$ 9,007	\$ 8,953	\$ 8,680
Total assets (GAAP)	\$ 95,133	\$ 93,821	\$ 92,934	\$ 89,236	\$ 88,785
Less: Intangible assets ^(a)	1,080	1,090	1,014	1,027	934
Tangible assets (non-GAAP)	\$ 94,053	\$ 92,731	\$ 91,920	\$ 88,209	\$ 87,851
Tangible common equity to tangible assets ratio (non-GAAP)	9.98 %	9.88 %	9.80 %	10.15 %	9.88 %
Common Equity Tier 1 at period end					
Key shareholders equity (GAAP)	\$ 10,746				
Less: Series A Preferred Stock ^(b)	281				
Common Equity Tier 1 capital before adjustments and deductions	10,465				
Less: Goodwill, net of deferred taxes	1,034				
Intangible assets, net of deferred	26				

taxes	
Deferred tax assets	1
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(58)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(20)
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	(365)
Total Common Equity Tier 1 capital	\$ 9,847

Net risk-weighted assets (regulatory) **\$ 89,980**

Common Equity Tier 1 ratio (non-GAAP) **10.94 %**

Tier 1 common equity at period end

Key shareholders equity (GAAP)	\$ 10,530	\$ 10,303	\$ 10,271	\$ 9,905
Qualifying capital securities	339	339	339	1,046
Less: Goodwill	1,057	979	979	917
Accumulated other comprehensive income (loss) ^(c)	(395)	(394)	(172)	(72)
Other assets ^(d)	83	89	114	72
Total Tier 1 capital (regulatory)	10,124	9,968	9,689	10,034
Less: Qualifying capital securities	339	339	339	1,046
Series A Preferred Stock ^(b)	282	282	291	291
Total Tier 1 common equity (non-GAAP)	\$ 9,503	\$ 9,347	\$ 9,059	\$ 8,697

Net risk-weighted assets (regulatory)		\$ 85,100		\$ 83,328		\$ 79,734		\$ 77,214			
Tier 1 common equity ratio (non-GAAP)		11.17	%	11.22	%	11.36	%	11.26	%		
Pre-provision net revenue											
Net interest income (GAAP)	\$	2,348		\$ 2,293		\$ 2,325		\$ 2,264		\$ 2,267	
Plus: Taxable-equivalent adjustment		28		24		23		24		25	
Noninterest income (GAAP)		1,880		1,797		1,766		1,856		1,688	
Less: Noninterest expense (GAAP)		2,840		2,761		2,812		2,834		2,712	
Pre-provision net revenue from continuing operations (non-GAAP)	\$	1,416		\$ 1,353		\$ 1,302		\$ 1,310		\$ 1,268	
Average tangible common equity											
Average Key shareholders equity (GAAP)	\$	10,626		\$ 10,467		\$ 10,276		\$ 10,144		\$ 10,133	
Less: Intangible assets (average) ^(e)		1,085		1,039		1,021		978		935	
Series B Preferred Stock (average)										590	
Series A Preferred Stock (average)		290		291		291		291		291	
Average tangible common equity (non-GAAP)	\$	9,251		\$ 9,137		\$ 8,964		\$ 8,875		\$ 8,317	
Return on average tangible common equity from continuing operations											
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$	892		\$ 917		\$ 847		\$ 813		\$ 848	
Average tangible common equity (non-GAAP)		9,251		9,137		8,964		8,875		8,317	
Return on average tangible common equity from continuing		9.64	%	10.04	%	9.45	%	9.16	%	10.20	%

operations (non-GAAP)

**Return on average
tangible common equity
consolidated**

Net income (loss)

attributable to Key
common shareholders

(GAAP) \$ 893 \$ 878 \$ 887 \$ 836 \$ 813

Average tangible common
equity (non-GAAP) 9,251 9,137 8,964 8,875 8,317Return on average
tangible common equity
consolidated (non-GAAP) 9.65 % 9.61 % 9.90 % 9.42 % 9.78 %**Cash efficiency ratio**

Noninterest expense

(GAAP) \$ 2,840 \$ 2,761 \$ 2,812 \$ 2,834 \$ 2,712

Less: Intangible asset

amortization

(GAAP) 36 39 44 23 4

Adjusted

noninterest

expense

(non-GAAP) \$ 2,804 \$ 2,722 \$ 2,768 \$ 2,811 \$ 2,708

Net interest income

(GAAP) \$ 2,348 \$ 2,293 \$ 2,325 \$ 2,264 \$ 2,267

Plus: Taxable-equivalent
adjustment

28 24 23 24 25

Noninterest

income (GAAP) 1,880 1,797 1,766 1,856 1,688

Total
taxable-equivalent
revenue

(non-GAAP) \$ 4,256 \$ 4,114 \$ 4,114 \$ 4,144 \$ 3,980

Cash efficiency ratio

(non-GAAP) 65.9 % 66.2 % 67.3 % 67.8 % 68.0 %

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- (a) For the years ended December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, intangible assets exclude \$45 million, \$68 million, \$92 million, and \$123 million, respectively, of period-end purchased credit card receivables.
- (b) Net of capital surplus for the years ended December 31, 2015, December 31, 2014, and December 31, 2013.
- (c) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.
- (d) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014, December 31, 2013, December 31, 2012, and December 31, 2011.
- (e) For the years ended December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, average intangible assets exclude \$55 million, \$79 million, \$107 million, and \$55 million, respectively, of average purchased credit card receivables.

Figure 4. GAAP to Non-GAAP Reconciliations, continued**Year ended December 31,***dollars in millions***2015****Common Equity Tier 1 under the Regulatory Capital Rules (estimates)**

Common Equity Tier 1 under current Regulatory Capital Rules	\$	9,847	
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:			
Deferred tax assets and other intangible assets ^(f)		(40)	
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules ^(g)	\$	9,807	
Net risk-weighted assets under current Regulatory Capital Rules	\$	89,980	
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:			
Mortgage servicing assets ^(h)		482	
All other assets ⁽ⁱ⁾		3	
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules ^(g)	\$	90,465	
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules ^(g)		10.84	%

- (f) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as intangible assets (other than goodwill and mortgage servicing assets) subject to the transition provisions of the final rule.
- (g) The anticipated amount of regulatory capital and risk-weighted assets is based upon the federal banking agencies Regulatory Capital Rules (as fully phased-in on January 1, 2019); we are subject to the Regulatory Capital Rules under the standardized approach.
- (h) Item is included in the 10%/15% exceptions bucket calculation and is risk-weighted at 250%.
- (i) Includes the phase-in of deferred tax assets arising from temporary differences at 250% risk-weight. Additionally, under the fully implemented rule, certain deferred tax assets and intangible assets subject to the transition provision are no longer required to be risk-weighted because they are deducted directly from capital.

Results of Operations

Net interest income

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

- the volume, pricing, mix, and maturity of earning assets and interest-bearing liabilities;
- the volume and value of net free funds, such as noninterest-bearing deposits and equity capital;
- the use of derivative instruments to manage interest rate risk;
- interest rate fluctuations and competitive conditions within the marketplace; and
- asset quality.

To make it easier to compare results among several periods and the yields on various types of earning assets (some taxable, some not), we present net interest income in this discussion on a taxable-equivalent basis (i.e.,

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as if it were all taxable and at the same rate). For example, \$100 of tax-exempt income would be presented as \$154, an amount that if taxed at the statutory federal income tax rate of 35% would yield \$100.

Figure 5 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five years. This figure also presents a reconciliation of taxable-equivalent net interest income to net interest income reported in accordance with GAAP for each of those years. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income for 2015 was \$2.376 billion, and the net interest margin was 2.88%. These results compare to taxable-equivalent net interest income of \$2.317 billion and a net interest margin of 2.97% for the prior year. The \$59 million increase in net interest income reflects higher earning asset balances, partially offset by lower earning asset yields, which also drove the decline in the net interest margin.

Taxable-equivalent net interest income for 2014 decreased \$31 million compared to 2013, and the net interest margin declined 15 basis points. The decreases in net interest income and the net interest margin were attributable to lower earning asset yields. Loan growth, the maturity of higher-rate certificates of deposit, and a more favorable mix of lower-cost deposits and wholesale borrowings partially offset the impact of lower earning asset yields.

Average earning assets totaled \$82.5 billion for 2015, compared to \$78.1 billion in 2014. Contributing to the 2015 increase in average earning assets was average loan growth of \$2.9 billion driven by commercial, financial and agricultural loans, which increased \$3.3 billion and was broad-based across our commercial lines of business. In addition, our average securities available for sale portfolio increased \$1.5 billion compared to 2014 due to higher levels of liquidity, driven by deposit growth and long-term debt issuances, which benefited KeyBank's LCR and credit ratings profile.

Average deposits, excluding deposits in foreign office, totaled \$70.1 billion for 2015, an increase of \$2.9 billion compared to 2014. NOW and money market deposit accounts increased \$2 billion, and demand deposits increased \$1.9 billion, reflecting growth in the commercial mortgage servicing business and inflows from commercial and consumer clients. These increases were partially offset by run-off in certificates of deposit and other time deposits.

Table of Contents**Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations**

Year ended December 31, <i>dollars in millions</i>	2015			2014		
	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)
ASSETS						
Loans: (b), (c)						
Commercial, financial and agricultural	\$ 29,658	(d) \$ 953	3.21 %	\$ 26,375	(d) \$ 866	3.28 %
Real estate commercial mortgage	8,020	295	3.68	7,999	303	3.79
Real estate construction	1,143	43	3.73	1,061	43	4.07
Commercial lease financing	3,976	143	3.60	4,239	156	3.67
Total commercial loans	42,797	1,434	3.35	39,674	1,368	3.45
Real estate residential mortgage	2,244	95	4.21	2,201	96	4.37
Home equity:						
Key Community Bank	10,266	399	3.89	10,340	405	3.91
Other	237	19	7.85	299	23	7.80
Total home equity loans	10,503	418	3.98	10,639	428	4.02
Consumer other Key Community Bank	1,580	103	6.54	1,501	104	6.92
Credit cards	752	81	10.76	712	78	10.95
Consumer other:						
Marine	675	43	6.36	894	56	6.22
Other	43	3	7.56	58	4	7.70
Total consumer other	718	46	6.43	952	60	6.31
Total consumer loans	15,797	743	4.70	16,005	766	4.79
Total loans	58,594	2,177	3.71	55,679	2,134	3.83
Loans held for sale	959	37	3.85	570	21	3.76
Securities available for sale (b), (e)	13,720	293	2.14	12,210	277	2.27
Held-to-maturity securities (b)						
Trading account assets	761	21	2.80	932	25	2.70
Short-term investments	2,843	8	.27	2,886	6	.21
Other investments (e)	706	18	2.63	865	22	2.53

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Total earning assets	82,519	2,650	3.21	78,091	2,578	3.30
Allowance for loan and lease losses	(791)			(818)		
Accrued income and other assets	10,300			9,806		
Discontinued assets	2,132			3,828		
Total assets	\$ 94,160			\$ 90,907		

LIABILITIES

NOW and money market deposit accounts	\$ 36,258	56	.15	\$ 34,283	48	.14
Savings deposits	2,372		.02	2,446	1	.02
Certificates of deposit (\$100,000 or more) ^(f)	2,041	26	1.28	2,616	35	1.35
Other time deposits	3,115	22	.71	3,495	32	.91
Deposits in foreign office	489	1	.23	615	1	.23

Total interest-bearing deposits	44,275	105	.24	43,455	117	.27
Federal funds purchased and securities sold under repurchase agreements	632		.04	1,182	2	.16
Bank notes and other short-term borrowings	572	9	1.52	597	9	1.49
Long-term debt ^{(f), (g)}	7,334	160	2.24	5,161	133	2.68

Total interest-bearing liabilities	52,813	274	.52	50,395	261	.52
Noninterest-bearing deposits	26,355			24,410		
Accrued expense and other liabilities	2,222			1,791		
Discontinued liabilities ^(g)	2,132			3,828		

Total liabilities	83,522			80,424		
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EQUITY

Key shareholders equity	10,626			10,467		
Noncontrolling interests	12			16		

Total equity	10,638			10,483		
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Total liabilities and equity	\$ 94,160			\$ 90,907		
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Interest rate spread (TE)			2.69	%		2.78	%
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Net interest income (TE) and net interest margin (TE)		2,376	2.88	%		2,317	2.97	%
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TE adjustment ^(b)		28				24		
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Net interest income, GAAP basis	\$ 2,348	\$ 2,293
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- (a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g) below, calculated using a matched funds transfer pricing methodology.
- (b) Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.
- (c) For purposes of these computations, nonaccrual loans are included in average loan balances.
- (d) Commercial, financial and agricultural average balances include \$88 million, \$93 million, \$95 million, and \$36 million of assets from commercial credit cards for the years ended December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

Table of Contents**Figure 5. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations (Continued)**

2013 Interest	Yield/ Rate (a)	(a)	Average Balance	2012			2011			Compo R Change Average Balance	
				Interest	Yield/ Rate (a)	(a)	Average Balance	Interest	Yield/ Rate (a)		(a)
855	3.60	%	\$ 21,141	(d) \$ 810	3.83	%	\$ 17,507	\$ 705	4.03	%	11.1
312	4.11		7,656	339	4.43		8,437	380	4.50		(1.0)
45	4.25		1,171	56	4.74		1,677	73	4.36		(7.4)
172	3.67		5,142	187	3.64		5,846	293	5.01		(7.4)
1,384	3.73		35,110	1,392	3.96		33,467	1,451	4.34		5.0
98	4.49		2,049	100	4.86		1,850	97	5.25		3.9
397	3.93		9,520	384	4.03		9,390	387	4.12		1.8
29	7.70		473	37	7.81		598	46	7.66		(16.9)
426	4.07		9,993	421	4.21		9,988	433	4.34		1.0
103	7.33		1,269	121	9.53		1,167	113	9.62		6.2
83	11.86		288	40	13.99						N/M
74	6.26		1,551	97	6.26		1,992	125	6.28		(19.5)
6	8.32		102	8	8.14		142	11	7.87		(21.3)
80	6.38		1,653	105	6.38		2,134	136	6.38		(19.6)
790	4.94		15,252	787	5.16		15,139	779	5.14		.9
2,174	4.10		50,362	2,179	4.33		48,606	2,230	4.59		3.8
20	3.72		579	20	3.45		387	14	3.58		19.9
311	2.49		13,422	399	3.08		18,766	584	3.20		(6.1)
82	1.87		3,511	69	1.97		514	12	2.35		57.2
21	2.78		718	18	2.48		878	26	2.97		(2.8)
6	.20		2,116	6	.27		2,543	6	.25		2.3
29	2.84		1,141	38	3.27		1,264	42	3.14		(11.0)
2,643	3.51		71,849	2,729	3.82		72,958	2,914	4.02		2.5
			(919)				(1,250)				(8.7)
			9,912				10,341				(.1)
			5,573				6,247				(19.3)
			\$ 86,415				\$ 88,296				1.3

53	.16	\$ 29,673	56	.19	\$ 27,001	71	.26	6.1
1	.04	2,218	1	.05	1,958	1	.06	3.9
50	1.76	3,574	94	2.64	4,931	149	3.02	(16.2)
53	1.30	5,386	104	1.92	7,185	166	2.31	(15.4)
1	.23	767	2	.23	807	3	.30	(9.5)
158	.37	41,618	257	.62	41,882	390	.93	1.1
2	.13	1,814	4	.19	1,981	5	.27	(20.4)
8	1.89	413	7	1.69	619	11	1.84	(1.6)
127	3.28	4,673	173	4.10	7,293	216	3.18	.1
295	.60	48,518	441	.92	51,775	622	1.21	.4
		20,217			17,381			8.7
		1,958			2,658			(3.5)
		5,555			6,232			(19.3)
		76,248			78,046			1.4
		10,144			10,133			1.0
		23			117			(36.6)
		10,167			10,250			.7
		\$ 86,415			\$ 88,296			1.3
	2.91	%		2.90	%		2.81	%
2,348	3.12	%	2,288	3.21	%	2,292	3.16	%
23			24			25		
2,325		\$ 2,264			\$ 2,267			

(e) Yield is calculated on the basis of amortized cost.

(f) Rate calculation excludes basis adjustments related to fair value hedges.

(g) A portion of long-term debt and the related interest expense is allocated to discontinued liabilities as a result of applying our matched funds transfer pricing methodology to discontinued operations.

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Figure 6 shows how the changes in yields or rates and average balances from the prior year affected net interest income. The section entitled "Financial Condition" contains additional discussion about changes in earning assets and funding sources.

Figure 6. Components of Net Interest Income Changes from Continuing Operations

<i>in millions</i>	2015 vs. 2014			2014 vs. 2013			(a)
	Average Volume	Yield/Rate	Net Change	Average Volume	Yield/Rate	Net Change	
INTEREST INCOME							
Loans	\$ 110	\$ (67)	\$ 43	\$ 105	\$ (145)	\$ (40)	
Loans held for sale	15	1	16	1		1	
Securities available for sale	33	(17)	16	(11)	(23)	(34)	
Held-to-maturity securities		3	3	11		11	
Trading account assets	(5)	1	(4)	5	(1)	4	
Short-term investments		2	2				
Other investments	(4)		(4)	(4)	(3)	(7)	
Total interest income (TE)	149	(77)	72	107	(172)	(65)	
INTEREST EXPENSE							
NOW and money market deposit accounts	3	5	8	2	(7)	(5)	
Savings deposits		(1)	(1)				
Certificates of deposit (\$100,000 or more)	(7)	(2)	(9)	(4)	(11)	(15)	
Other time deposits	(3)	(7)	(10)	(7)	(14)	(21)	
Deposits in foreign office							
Total interest-bearing deposits	(7)	(5)	(12)	(9)	(32)	(41)	
Federal funds purchased and securities sold under repurchase agreements	(1)	(1)	(2)	(1)	1		
Bank notes and other short-term borrowings				3	(2)	1	
Long-term debt	50	(23)	27	27	(21)	6	
Total interest expense	42	(29)	13	20	(54)	(34)	
Net interest income (TE)	\$ 107	\$ (48)	\$ 59	\$ 87	\$ (118)	\$ (31)	

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

Noninterest income

As shown in Figure 7, noninterest income for 2015 was \$1.88 billion, up \$83 million, or 4.6%, from 2014. Investment banking and debt placement fees benefited from our business model and had a record year, increasing \$48 million

from 2014. Trust and investment services income increased \$30 million, primarily due to the full year 2015 impact of the September 2014 acquisition of Pacific Crest Securities. Noninterest income for 2015 also included increases of \$20 million in corporate services income due to higher non-yield loan fees and dealer trading and derivatives income and \$17 million in cards and payments income due to higher merchant services, purchase card, and ATM debit card fees driven by increased volume. Other income also increased \$10 million. These increases were partially offset by declines of \$27 million in net gains from principal investing and \$23 million in operating lease income and other leasing gains.

In 2014, noninterest income increased \$31 million, or 1.8%, compared to 2013. Investment banking and debt placement fees increased \$64 million from 2013. Net gains from principal investing were \$26 million higher than prior year, and trust and investment services income increased \$10 million, primarily due to the September 2014 acquisition of Pacific Crest Securities. These increases were partially offset by declines of \$21 million in operating lease income and other leasing gains, \$20 million in service charges on deposit accounts, \$12 million in mortgage servicing fees, and \$9 million in consumer mortgage income. Other income also decreased \$15 million.

Table of Contents**Figure 7. Noninterest Income**

Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	Change 2015 vs. 2014	
				Amount	Percent
Trust and investment services income	\$ 433	\$ 403	\$ 393	\$ 30	7.4 %
Investment banking and debt placement fees	445	397	333	48	12.1
Service charges on deposit accounts	256	261	281	(5)	(1.9)
Operating lease income and other leasing gains	73	96	117	(23)	(24.0)
Corporate services income	198	178	172	20	11.2
Cards and payments income	183	166	162	17	10.2
Corporate-owned life insurance income	127	118	120	9	7.6
Consumer mortgage income	12	10	19	2	20.0
Mortgage servicing fees	48	46	58	2	4.3
Net gains (losses) from principal investing	51	78	52	(27)	(34.6)
Other income ^(a)	54	44	59	10	22.7
Total noninterest income	\$ 1,880	\$ 1,797	\$ 1,766	\$ 83	4.6 %

(a) Included in this line item is our Dealer trading and derivatives income (loss). Additional detail is provided in Figure 8.

Figure 8. Dealer Trading and Derivatives Income (Loss)

Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	Change 2015 vs. 2014	
				Amount	Percent
Dealer trading and derivatives income (loss), proprietary ^{(a), (b)}	\$ (9)	\$ (18)	\$ (14)	\$ 9	N/M
Dealer trading and derivatives income (loss), nonproprietary ^(b)	20	7	27	13	185.7 %
Total dealer trading and derivatives income (loss)	\$ 11	\$ (11)	\$ 13	\$ 22	N/M

(a) For the year ended December 31, 2015, income of \$5 million related to foreign exchange, interest rates, and commodity derivative trading was offset by losses related to fixed income, equity securities trading, and credit portfolio management activities. For the year ended December 31, 2014, income of \$4 million related to foreign exchange, interest rate, and commodity derivative trading was offset by losses related to equity securities trading, fixed income, and credit portfolio management activities. For the year ended December 31, 2013, income of \$3 million related to foreign exchange and interest rate derivative trading was offset by losses related to fixed income,

equity securities trading, commodity derivative trading, and credit portfolio management activities.

(b) The allocation between proprietary and nonproprietary is made based upon whether the trade is conducted for the benefit of Key or Key's clients rather than based upon rulemaking under the Volcker Rule. Prohibitions and restrictions on proprietary trading activities imposed by the Volcker Rule became effective April 1, 2014. For more information, see the discussion under the heading "Other Regulatory Developments under the Dodd-Frank Act - Volcker Rule" in the section entitled "Supervision and Regulation" in Item 1 of this report. The following discussion explains the composition of certain elements of our noninterest income and the factors that caused those elements to change.

Trust and investment services income

Trust and investment services income is one of our largest sources of noninterest income and consists of brokerage commissions, trust and asset management commissions, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 9. For 2015, trust and investment services income increased \$30 million, or 7.4%, from the prior year primarily due to the full year 2015 impact of the September 2014 acquisition of Pacific Crest Securities. For 2014, trust and investment services income increased \$10 million, or 2.5%, from the prior year.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At December 31, 2015, our bank, trust, and registered investment advisory subsidiaries had assets under management of \$34.0 billion, compared to \$39.2 billion at December 31, 2014, and \$36.9 billion at December 31, 2013. As shown in Figure 9, the decrease from 2014 to 2015 was primarily attributable to client attrition in the securities lending portfolio and market declines across all the portfolios. Increases from 2013 to 2014 across all the portfolios were attributable to market appreciation.

Table of Contents**Figure 9. Assets Under Management**

Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	Change 2015 vs. 2014		
				Amount	Percent	
Assets under management by investment type:						
Equity	\$ 20,199	\$ 21,393	\$ 20,971	\$ (1,194)	(5.6)	%
Securities lending	1,215	4,835	3,422	(3,620)	(74.9)	
Fixed income	9,705	10,023	9,767	(318)	(3.2)	
Money market	2,864	2,906	2,745	(42)	(1.4)	
Total	\$ 33,983	\$ 39,157	\$ 36,905	\$ (5,174)	(13.2)	%

Investment banking and debt placement fees

Investment banking and debt placement fees consist of syndication fees, debt and equity financing fees, financial advisor fees, gains on sales of commercial mortgages, and agency origination fees. For 2015, investment banking and debt placement fees increased \$48 million, or 12.1%, from the prior year. For 2014, investment banking and debt placement fees increased \$64 million, or 19.2%, from the prior year. These increases were primarily driven by strength in syndication and financial advisory fees as well as the impact of the September 2014 acquisition of Pacific Crest Securities.

Service charges on deposit accounts

Service charges on deposit accounts declined \$5 million, or 1.9%, in 2015 compared to the prior year and \$20 million, or 7.1%, in 2014 compared to 2013 primarily due to lower overdraft charges resulting from changes in posting order.

Operating lease income and other leasing gains

Operating lease income and other leasing gains decreased \$23 million, or 24%, during 2015 compared to the prior year, and \$21 million, or 17.9%, in 2014 compared to 2013 due to lower gains on the early terminations of leveraged leases. Figure 10 shows the corresponding operating lease expense related to the rental of leased equipment.

Corporate services income

Corporate services income increased \$20 million, or 11.2%, in 2015 compared to 2014 driven by higher non-yield loan fees and dealer trading and derivatives income. Corporate services income increased \$6 million, or 3.5%, in 2014 compared to 2013 driven by higher non-yield loan fees.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased \$17 million, or 10.2%, in 2015 compared to 2014 and \$4 million, or 2.5%, in 2014 compared to 2013. The increases were due to higher merchant services, purchase card, and ATM debit card fees driven by increased volume.

Consumer mortgage income

Consumer mortgage income increased \$2 million, or 20%, in 2015 compared to 2014. This increase was primarily driven by gains on the sales of consumer mortgage loans. Consumer mortgage income decreased \$9 million, or 47.4%, in 2014 compared to 2013, primarily due to lower mortgage originations caused by increasing mortgage interest rates.

Table of Contents**Mortgage servicing fees**

Mortgage servicing fees increased \$2 million, or 4.3%, in 2015 compared to 2014 due to lower mortgage servicing fee amortization expense. Mortgage servicing fees decreased \$12 million, or 20.7%, in 2014 compared to 2013 due to lower special servicing fees.

Other income

Other income, which consists primarily of gains on sales of loans held for sale, other service charges, and certain dealer trading income, increased \$10 million, or 22.7%, in 2015 compared to 2014, and decreased \$15 million, or 25.4%, in 2014 compared to 2013 due to changes in various miscellaneous income categories.

Noninterest expense

As shown in Figure 10, noninterest expense for 2015 was \$2.84 billion, an increase of \$79 million, or 2.9%, from 2014. We recognized \$61 million of merger-, efficiency-, and pension-related charges in 2015 compared to \$80 million of efficiency- and pension-related charges in 2014. As shown in Figure 11, personnel expense increased \$61 million, driven by higher incentive and stock-based compensation, employee benefits, and salaries, partially offset by lower technology contract labor and severance. Nonpersonnel expense increased \$18 million, primarily due to increases in marketing of \$8 million and computer processing of \$6 million.

Noninterest expense for 2014 was \$2.761 billion, a decrease of \$51 million, or 1.8%, from 2013. We recognized \$80 million of efficiency- and pension-related charges in 2014 compared to \$117 million in 2013. We also recognized \$22 million of noninterest expense in 2014 related to Pacific Crest Securities, which we acquired during the third quarter of 2014. As shown in Figure 11, personnel expense decreased by \$18 million in 2014 due to declines in technology contract labor, severance, and employee benefits, partially offset by an increase in incentive and stock-based compensation. Nonpersonnel expense decreased \$33 million, primarily due to declines in net occupancy costs and equipment expense.

Figure 10. Noninterest Expense

Year ended December 31,				Change 2015 vs. 2014	
<i>dollars in millions</i>	2015	2014	2013	Amount	Percent
Personnel	\$ 1,652	\$ 1,591	\$ 1,609	\$ 61	3.8 %
Net occupancy	255	261	275	(6)	(2.3)
Computer processing	164	158	156	6	3.8
Business services and professional fees	159	156	151	3	1.9
Equipment	88	96	104	(8)	(8.3)
Operating lease expense	47	42	47	5	11.9
Marketing	57	49	51	8	16.3
FDIC assessment	32	30	30	2	6.7
Intangible asset amortization	36	39	44	(3)	(7.7)
OREO expense, net	6	5	7	1	20.0
Other expense	344	334	338	10	3.0
Total noninterest expense	\$ 2,840	\$ 2,761	\$ 2,812	\$ 79	2.9 %

Average full-time equivalent employees ^(a)	13,483	13,853	14,783	(370)	(2.7) %
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(a) The number of average full-time-equivalent employees was not adjusted for discontinued operations. The following discussion explains the composition of certain elements of our noninterest expense and the factors that caused those elements to change.

Personnel

As shown in Figure 11, personnel expense, the largest category of our noninterest expense, increased by \$61 million, or 3.8%, in 2015 compared to 2014. Increases in incentive and stock-based compensation of \$30 million,

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employee benefits of \$26 million, and salaries of \$21 million all contributed to the increase in personnel expense. These increases were partially offset by declines in technology contract labor of \$10 million and severance of \$6 million.

Personnel expense decreased by \$18 million, or 1.1%, from 2013 to 2014. Declines in technology contract labor of \$16 million, severance of \$14 million, and employee benefits of \$15 million all contributed to the decrease. These declines were partially offset by an increase in incentive and stock-based compensation of \$27 million related to the performance of our business and the September 2014 acquisition of Pacific Crest Securities.

Figure 11. Personnel Expense

Year ended December 31,	Change 2015 vs. 2014				
<i>dollars in millions</i>	2015	2014	2013	Amount	Percent
Salaries	\$ 912	\$ 891	\$ 891	\$ 21	2.4 %
Technology contract labor, net	46	56	72	(10)	(17.9)
Incentive and stock-based compensation ^(a)	410	380	353	30	7.9
Employee benefits	266	240	255	26	10.8
Severance	18	24	38	(6)	(25.0)
Total personnel expense	\$ 1,652	\$ 1,591	\$ 1,609	\$ 61	3.8 %

(a) Excludes directors' stock-based compensation of \$1 million in 2015, \$2 million in 2014, and \$3 million in 2013, reported as other expense in Figure 10.

Net occupancy

Net occupancy expense decreased \$6 million, or 2.3%, in 2015 compared to 2014, and \$14 million, or 5.1%, in 2014 compared to 2013. These declines were primarily due to lower charges related to vacating leased property and a decrease in rental expenses.

Operating lease expense

Operating lease expense increased \$5 million, or 11.9%, in 2015 compared to 2014 due to increased depreciation expense on operating lease equipment related to new business. Operating lease expense decreased \$5 million, or 10.6%, in 2014 compared to 2013 primarily due to product run-off. Income related to the rental of leased equipment is presented in Figure 7 as operating lease income and other leasing gains.

Other expense

Other expense comprises various miscellaneous expense items such as travel and entertainment, costs associated with technology service providers, and franchise and business taxes. Other expense increased \$10 million, or 3.0%, in 2015 compared to 2014, and declined \$4 million, or 1.2%, in 2014 compared to 2013 due to fluctuations in several of those line items.

Income taxes

We recorded a tax provision from continuing operations of \$303 million for 2015, compared to a tax provision of \$326 million for 2014, and \$271 million for 2013. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 24.8% for 2015, compared to 25.6% for 2014, and 23.7% for 2013.

Our federal tax (benefit) expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance, earn credits associated with investments in low-income housing projects, and make periodic

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adjustments to our tax reserves. In 2015, our effective tax rate was reduced by additional federal tax credit refunds filed for prior years. In addition, in 2014 and 2013, our effective tax rate was lower due to the early termination of certain leveraged leases that resulted in nontaxable gains pursuant to a prior settlement with the IRS.

We recorded a valuation allowance of \$.4 million at December 31, 2015, compared to \$.3 million at December 31, 2014, and \$1 million at December 31, 2013, against the gross deferred tax assets for certain state net operating loss and state credit carryforwards.

Line of Business Results

This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 23 (Line of Business Results) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments and certain lines of business, and explains Other Segments and Reconciling Items.

Figure 12 summarizes the contribution made by each major business segment to our taxable-equivalent revenue from continuing operations and income (loss) from continuing operations attributable to Key for each of the past three years.

Figure 12. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	Change 2015 vs. 2014	
				Amount	Percent
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	\$ 2,275	\$ 2,215	\$ 2,315	\$ 60	2.7%
Key Corporate Bank	1,811	1,646	1,557	165	10.0
Other Segments	177	257	243	(80)	(31.1)
Total Segments	4,263	4,118	4,115	145	3.5
Reconciling Items	(7)	(4)	(1)	(3)	N/M
Total	\$ 4,256	\$ 4,114	\$ 4,114	\$ 142	3.5%
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	\$ 256	\$ 242	\$ 197	\$ 14	5.8%
Key Corporate Bank	545	548	529	(3)	(.6)
Other Segments	124	158	158	(34)	(21.5)
Total Segments	925	948	884	(23)	(2.4)
Reconciling Items	(10)	(9)	(14)	(1)	N/M
Total	\$ 915	\$ 939	\$ 870	\$ (24)	(2.6)%

Key Community Bank summary of operations

As shown in Figure 13, Key Community Bank recorded net income attributable to Key of \$256 million for 2015, compared to \$242 million for 2014, and \$197 million for 2013. The increase in 2015 was primarily due to growth in net interest income, as the value of deposits increased, and noninterest income, partially offset by higher provision for credit losses and noninterest expense.

Taxable-equivalent net interest income increased \$40 million, or 2.8%, from 2014. Average loans and leases grew \$729 million while average deposits increased \$837 million compared to 2014. The positive contribution to

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net interest income from loan and deposit growth and the increased value of deposits was partially offset by tightening credit spreads compared to one year ago.

Noninterest income increased \$20 million, or 2.6% from 2014. Cards and payments income increased \$16 million, or 10.5%, due to higher merchant services, purchase card, and ATM debit card income driven by increased volume. Trust and investment services income increased \$5 million, or 1.7%, driven by higher insurance and brokerage commissions. Investment banking and debt placement fees and consumer mortgage fees also contributed to the higher noninterest income. These increases in noninterest income were partially offset by lower service charges on deposit accounts of \$5 million, primarily due to reduced overdraft fees, and a decrease in other miscellaneous income.

The provision for loan and lease losses increased \$11 million, or 18.6%, from 2014, primarily due to loan growth. Net loan charge-offs decreased \$25 million from 2014 as a result of continued progress in the economic environment and further improvement in the credit quality of the portfolio.

Noninterest expense increased \$27 million, or 1.5%, from 2014. Personnel expense increased \$19 million, primarily due to increases in salaries and incentive and stock-based compensation. Nonpersonnel expense increased \$8 million, primarily due to increased marketing spend and other support costs.

In 2014, Key Community Bank's net income attributable to Key increased \$45 million from the prior year. Taxable-equivalent net interest income declined \$85 million from 2013. The positive contribution to net interest income from loan and deposit growth was offset by a reduction in the value of deposits in 2014 driven by the prolonged low-rate environment. Noninterest income decreased \$15 million from 2013. Service charges on deposit accounts declined \$19 million from 2013, primarily due to reduced overdraft fees resulting from changes in posting order. Consumer mortgage income decreased \$9 million from 2013 due to lower refinancing activity, and operating leasing income and other leasing gains declined \$4 million. These decreases in noninterest income were partially offset by an \$8 million increase in cards and payments income and a \$9 million increase in other miscellaneous income. The provision for credit losses decreased \$84 million. Noninterest expense declined \$87 million from 2013. Personnel expense decreased primarily due to declines in salaries, incentive and stock-based compensation, and employee benefits expenses. Nonpersonnel expense declined primarily due to decreases in outside loan servicing fees, computer processing, intangible asset amortization, and other support costs.

Figure 13. Key Community Bank

Year ended December 31, <i>dollars in millions</i>				Change 2015 vs. 2014		
	2015	2014	2013	Amount	Percent	
SUMMARY OF OPERATIONS						
Net interest income (TE)	\$ 1,486	\$ 1,446	\$ 1,531	\$ 40	2.8	%
Noninterest income	789	769	784	20	2.6	
Total revenue (TE)	2,275	2,215	2,315	60	2.7	
Provision for credit losses	70	59	143	11	18.6	
Noninterest expense	1,798	1,771	1,858	27	1.5	
Income (loss) before income taxes (TE)	407	385	314	22	5.7	
Allocated income taxes (benefit) and TE adjustments	151	143	117	8	5.6	
Net income (loss) attributable to Key	\$ 256	\$ 242	\$ 197	\$ 14	5.8	%

AVERAGE BALANCES

Loans and leases	\$ 30,834	\$ 30,105	\$ 29,311	\$ 729	2.4	%
Total assets	32,884	32,188	31,583	696	2.2	
Deposits	51,164	50,327	49,806	837	1.7	
Assets under management at year end	\$ 33,983	\$ 39,157	\$ 36,815	\$ (5,174)	(13.2)	%

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Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	Change 2015 vs. 2014		
				Amount	Percent	
NONINTEREST INCOME						
Trust and investment services income	\$ 296	\$ 291	\$ 290	\$ 5	1.7	%
Services charges on deposit accounts	213	218	237	(5)	(2.3)	
Cards and payments income	168	152	144	16	10.5	
Other noninterest income	112	108	113	4	3.7	
Total noninterest income	\$ 789	\$ 769	\$ 784	\$ 20	2.6	%

AVERAGE DEPOSITS OUTSTANDING

NOW and money market deposit accounts	\$ 28,400	\$ 27,526	\$ 26,621	\$ 874	3.2	%
Savings deposits	2,363	2,436	2,495	(73)	(3.0)	
Certificates of deposits (\$100,000 or more)	1,588	2,048	2,331	(460)	(22.5)	
Other time deposits	3,112	3,489	4,078	(377)	(10.8)	
Deposits in foreign office	277	314	279	(37)	(11.8)	
Noninterest-bearing deposits	15,424	14,514	14,002	910	6.3	
Total deposits	\$ 51,164	\$ 50,327	\$ 49,806	\$ 837	1.7	%

HOME EQUITY LOANS

Average balance	\$ 10,266	\$ 10,340	\$ 10,086
Weighted-average loan-to-value ratio (at date of origination)	71 %	71 %	71 %
Percent first lien positions	61	60	58

OTHER DATA

Branches	966	994	1,028
Automated teller machines	1,256	1,287	1,335

Key Corporate Bank summary of operations

As shown in Figure 14, Key Corporate Bank recorded net income attributable to Key of \$545 million for 2015, compared to \$548 million for 2014 and \$529 million for 2013. The 2015 decrease was driven by increases in the provision for credit losses and noninterest expense, partially offset by an increase in revenue.

Taxable-equivalent net interest income increased \$45 million, or 5.4%, in 2015 compared to 2014. The growth was primarily driven by a \$45 million increase in the deposit and other borrowing spread due to a \$2 billion increase in average deposit balances. Earning asset spread increased \$26 million due to a \$2.9 billion increase in average loan and lease balances. These increases were partially offset by decreases in other components of net interest income.

Noninterest income increased \$120 million, or 14.9%, from 2014. Investment banking and debt placement fees increased \$47 million due to a full-year impact of the September 2014 Pacific Crest securities acquisition as well as the strength of our business model. Trust and investment services income increased \$25 million mostly due to the full-year impact of the Pacific Crest Securities acquisition. Corporate services income increased \$23 million due to growth in non-yield loan fees associated with increases in loans, derivatives fees, and foreign exchange fees. Other noninterest income increased \$25 million mostly driven by gains related to the disposition of certain investments held by the Real Estate Capital line of business and higher trading income.

The provision for credit losses increased \$89 million, or 635.7%, from 2014, primarily due to a \$2.9 billion increase in average loan and lease balances as well as a return to a more normal credit environment. Net loan charge-offs increased \$58 million from 2014 due to both higher charge-offs and lower recoveries in 2015.

Noninterest expense increased \$102 million, or 11.8%, from 2014. This increase was primarily driven by a \$66 million increase in personnel expense due to higher incentive and stock-based compensation expense related to

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the performance of the Key Corporate Bank and the full-year impact of the September 2014 Pacific Crest Securities acquisition. In addition, there were increases in various other expense categories related to higher staffing and volume levels.

In 2014, Key Corporate Bank's net income attributable to Key increased \$19 million from the prior year. Taxable-equivalent net interest income increased \$45 million in 2014 compared to 2013, as increases in earning asset spread from higher earning asset balances offset a decrease in deposit spread from a decline in rates. Noninterest income increased \$44 million as increases in investment banking and debt placement fees, corporate services income, and trust and investment services income more than offset decreases in mortgage servicing fees, trading income, and other noninterest income categories. The provision for credit losses decreased \$4 million due to improved credit quality within the portfolio. Noninterest expense increased \$57 million mostly due to higher incentive compensation expense related to the performance of the Key Corporate Bank and the partial-year impact of the September 2014 Pacific Crest Securities acquisition, as well as increases in various other expense categories.

Figure 14. Key Corporate Bank

Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	Change 2015 vs. 2014	
				Amount	Percent
SUMMARY OF OPERATIONS					
Net interest income (TE)	\$ 885	\$ 840	\$ 795	\$ 45	5.4 %
Noninterest income	926	806	762	120	14.9
Total revenue (TE)	1,811	1,646	1,557	165	10.0
Provision for credit losses	103	14	18	89	635.7
Noninterest expense	966	864	807	102	11.8
Income (loss) before income taxes (TE)	742	768	732	(26)	(3.4)
Allocated income taxes and TE adjustments	196	218	203	(22)	(10.0)
Net income (loss)	546	550	529	(4)	(.7)
Less: Net income (loss) attributable to noncontrolling interests	1	2		(1)	(50.0)
Net income (loss) attributable to Key	\$ 545	\$ 548	\$ 529	\$ (3)	(.6) %
AVERAGE BALANCES					
Loans and leases	\$ 25,865	\$ 22,978	\$ 20,419	\$ 2,887	12.6 %
Loans held for sale	937	549	492	388	70.7
Total assets	31,610	28,123	25,427	3,487	12.4
Deposits	19,042	17,083	15,972	1,959	11.5 %
Assets under management at year end			\$ 90		

ADDITIONAL KEY CORPORATE BANK DATA

Year ended December 31,	Change 2015 vs. 2014
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<i>dollars in millions</i>	2015	2014	2013	Amount	Percent	
NONINTEREST INCOME						
Trust and investment services income	\$ 137	\$ 112	\$ 103	\$ 25	22.3	%
Investment banking and debt placement fees	439	392	329	47	12.0	
Operating lease income and other leasing gains	61	64	61	(3)	(4.7)	
Corporate services income	155	132	121	23	17.4	
Service charges on deposit accounts	43	43	44			
Cards and payments income	15	14	18	1	7.1	
Payments and services income	213	189	183	24	12.7	
Mortgage servicing fees	48	46	58	2	4.3	
Other noninterest income	28	3	28	25	833.3	
Total noninterest income	\$ 926	\$ 806	\$ 762	\$ 120	14.9	%

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Other Segments

Other Segments consist of Corporate Treasury, our Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of \$124 million for 2015, compared to \$158 million for both 2014 and 2013. Taxable-equivalent net interest income decreased \$33 million, and noninterest income declined \$47 million compared to 2014, due to lower operating lease income and other leasing gains and gains from principal investments. These decreases in revenue were partially offset by a decline in noninterest expense of \$23 million in 2015, primarily due to lower personnel expense.

In 2014, Other Segments net income attributable to Key was flat from the prior year. Taxable-equivalent net interest income increased \$6 million and noninterest income increased \$8 million. Noninterest expense declined \$6 million. These improvements were partially offset by an increase in the provision for credit losses of \$11 million.

Table of Contents**Financial Condition****Loans and loans held for sale**

Figure 15 shows the composition of our loan portfolio at December 31 for each of the past five years.

Figure 15. Composition of Loans

December 31, <i>dollars in millions</i>	2015		2014		2013	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
COMMERCIAL						
Commercial, financial and agricultural ^{(a), (b)}	\$ 31,240	52.2 %	\$ 27,982	48.8 %	\$ 24,963	45.8 %
Commercial real estate: ^(c)						
Commercial mortgage	7,959	13.3	8,047	14.0	7,720	14.2
Construction	1,053	1.7	1,100	1.9	1,093	2.0
Total commercial real estate loans	9,012	15.0	9,147	15.9	8,813	16.2
Commercial lease financing ^(d)	4,020	6.7	4,252	7.4	4,551	8.4
Total commercial loans	44,272	73.9	41,381	72.1	38,327	70.4
CONSUMER						
Real estate residential mortgage	2,242	3.7	2,225	3.9	2,187	4.0
Home equity:						
Key Community Bank	10,127	16.9	10,366	18.1	10,340	19.0
Other	208	.4	267	.5	334	.6
Total home equity loans	10,335	17.3	10,633	18.6	10,674	19.6
Consumer other Key Community Bank	1,600	2.7	1,560	2.7	1,449	2.7
Credit cards	806	1.3	754	1.3	722	1.3
Consumer other:						
Marine	583	1.0	779	1.3	1,028	1.9
Other	38	.1	49	.1	70	.1
	621	1.1	828	1.4	1,098	2.0

Total consumer
other

Total consumer loans		15,604	26.1			16,000	27.9		16,130	29.6		
Total loans ^{(e), (f)}	\$	59,876	100.0	%	\$	57,381	100.0	%	\$	54,457	100.0	%

		2012 Percent				2011 Percent				
		Amount	of Total			Amount	of Total			
COMMERCIAL										
Commercial, financial and agricultural ^(a)	\$	23,242	44.0	%	\$	19,759	39.9	%		
Commercial real estate:										
Commercial mortgage		7,720	14.6			8,037	16.2			
Construction		1,003	1.9			1,312	2.6			
Total commercial real estate loans		8,723	16.5			9,349	18.8			
Commercial lease financing		4,915	9.3			5,674	11.4			
Total commercial loans		36,880	69.8			34,782	70.1			
CONSUMER										
Real estate residential mortgage		2,174	4.1			1,946	3.9			
Home equity:										
Key Community Bank		9,816	18.6			9,229	18.6			
Other		423	.8			535	1.1			
Total home equity loans		10,239	19.4			9,764	19.7			
Consumer other										
Key Community Bank		1,349	2.5			1,192	2.4			
Credit cards		729	1.4							
Consumer other:										
Marine		1,358	2.6			1,766	3.6			
Other		93	.2			125	.3			
Total consumer other		1,451	2.8			1,891	3.9			
Total consumer loans		15,942	30.2			14,793	29.9			
Total loans ^{(e), (f)}	\$	52,822	100.0	%	\$	49,575	100.0	%		

- (a) Loan balances include \$85 million, \$88 million, \$94 million, and \$90 million of commercial credit card balances at December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.
- (b) See Figure 16 for a more detailed breakdown of our commercial, financial and agricultural loan portfolio at December 31, 2015, and December 31, 2014.
- (c) See Figure 17 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2015, and December 31, 2014.

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(d) Commercial lease financing includes receivables held as collateral for a secured borrowing of \$134 million, \$302 million and \$58 million at December 31, 2015, December 31, 2014, and December 31, 2013, respectively.

Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt).

(e) Total loans exclude loans of \$1.8 billion at December 31, 2015, \$2.3 billion at December 31, 2014, \$4.5 billion at December 31, 2013, \$5.2 billion at December 31, 2012, and \$5.8 billion at December 31, 2011, related to the discontinued operations of the education lending business.

(f) At December 31, 2015, total loans include purchased loans of \$114 million, of which \$11 million were PCI loans.

At December 31, 2014, total loans include purchased loans of \$138 million, of which \$13 million were PCI loans.

At December 31, 2013, total loans include purchased loans of \$166 million, of which \$16 million were PCI loans.

At December 31, 2012, total loans included purchased loans of \$217 million of which \$23 million were PCI loans.

At December 31, 2015, total loans outstanding from continuing operations were \$59.9 billion, compared to \$57.4 billion at the end of 2014, and \$54.5 billion at the end of 2013. Loans related to the discontinued operations of the education lending business and excluded from total loans were \$1.8 billion at December 31, 2015, \$2.3 billion at December 31, 2014, and \$4.5 billion at December 31, 2013. Further information regarding our discontinued operations is provided in Note 13 (Acquisitions and Discontinued Operations). For more information on balance sheet carrying value, see Note 1 (Summary of Significant Accounting Policies) under the headings Loans and Loans Held for Sale.

Commercial loan portfolio

Commercial loans outstanding were \$44.3 billion at December 31, 2015, an increase of \$2.9 billion, or 7.0%, compared to December 31, 2014.

Commercial, financial and agricultural. As shown in Figure 15, our commercial, financial and agricultural loans represent 52% and 49% of our total loan portfolio at December 31, 2015, and December 31, 2014, respectively, and are the largest component of our total loans. These loans are originated by both Key Corporate Bank and Key Community Bank and consist of fixed and variable rate loans to our large, middle market and small business clients. These loans increased \$3.3 billion, or 11.6%, from one year ago.

Figure 16 provides our commercial, financial and agricultural loans by industry classification as of December 31, 2015, and December 31, 2014.

Figure 16. Commercial, Financial and Agricultural Loans

<i>dollars in millions</i>	December 31, 2015			December 31, 2014		
	Amount	Percent of Total		Amount	Percent of Total	
Industry classification:						
Services	\$ 6,722	21.5	%	\$ 6,053	21.6	%
Manufacturing	4,937	15.8		4,621	16.5	
Financial services	3,073	9.8		2,844	10.2	

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Public utilities	2,581	8.3		1,938	6.9	
Wholesale trade	2,302	7.4		2,294	8.2	
Transportation	1,691	5.4		1,407	5.0	
Dealer floor plan	1,447	4.6		1,439	5.2	
Retail trade	1,231	3.9		1,089	3.9	
Property management	1,059	3.4		834	3.0	
Mining	802	2.6		946	3.4	
Agriculture/forestry/fishing	712	2.3		675	2.4	
Public administration	705	2.3		501	1.8	
Building contractors	661	2.1		683	2.4	
Insurance	389	1.2		257	.9	
Communications	213	.7		196	.7	
Other	2,715	8.7		2,205	7.9	
Total	\$ 31,240	100.0	%	\$ 27,982	100.0	%

Commercial, financial and agricultural loans increased \$3.3 billion, or 11.6%, from December 31, 2014, with Key Corporate Bank increasing \$3 billion and Key Community Bank up \$340 million. We have experienced

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growth in new high credit quality loan commitments and utilization with clients in our middle market segment and Institutional and Capital Markets business. Our two largest industry classifications—services and manufacturing—increased by 11.1% and 6.8%, respectively, when compared to one year ago. The services and manufacturing industries represented approximately 22% and 16%, respectively, of the total commercial, financial and agricultural loan portfolio at December 31, 2015, and approximately 22% and 17%, respectively, at December 31, 2014. At the end of 2015 and 2014, loans in the services and manufacturing industry classifications accounted for approximately 37% and 38%, respectively, of our total commercial, financial and agricultural loan portfolio.

Services, manufacturing, and public utilities are focus areas where we maintain dedicated industry verticals that are staffed by relationship managers who possess deep industry experience and knowledge. Our loans in the services classification grew by \$669 million, or 11.1%, compared to last year. Loans in the manufacturing classification grew by \$316 million, or 6.8% compared to the same period one year ago. Increases in lending to large corporate, middle market, and business banking clients accounted for the majority of the growth in this classification. Loans in public utilities increased by \$643 million, or 33.2%, compared to December 31, 2014, due to growth from our alternative energy and renewable energy clients.

Our loans in the financial services and transportation classifications increased 8.1% and 20.2%, respectively, compared to the prior year. The increase in financial services loans was primarily attributable to growth in real estate investment trust balances. The increase in transportation loans was primarily attributable to loan growth for rail cars and shipping containers.

Our oil and gas loan portfolio, included within the public utilities and mining industry classifications in Figure 16, focuses on lending to middle market companies and represents approximately 2% of total loans outstanding at December 31, 2015. We have nearly 15 years of experience in energy lending with over 20 specialists dedicated to this sector, focusing on middle market companies, which is aligned with our relationship strategy.

The upstream segment, comprising oil and gas exploration and production, represents approximately one-half of our exposure, is primarily secured by oil and gas reserves, subject to a borrowing base, and regularly stress-tested. The midstream segment, comprising mostly distribution companies, has lower exposure to commodity risk. Oil field services exposure is minimal and concentrated in very few borrowers. This mix was essentially unchanged from the prior year. Our total commitments in the energy sector were approximately \$3 billion at December 31, 2015, slightly lower than the prior year.

Commercial real estate loans. Commercial real estate loans represent 15% of our total loan portfolio at December 31, 2015, compared to 16% at December 31, 2014. These commercial real estate loans, including both owner- and nonowner-occupied properties, represented 20% of our commercial loan portfolio at December 31, 2015, compared to 22% one year ago. These loans have decreased \$135 million, or 1.5%, to \$9 billion at December 31, 2015, from \$9.1 billion at December 31, 2014. Our commercial real estate lending business is conducted through two primary sources: our 12-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of commercial real estate located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 68% of our average year-to-date commercial real estate loans, compared to 61% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of commercial real estate.

Figure 17 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 17, this loan portfolio is diversified by both property type and geographic location of the underlying collateral.

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As presented in Figure 17, at December 31, 2015, our commercial real estate portfolio included mortgage loans of \$8 billion and construction loans of \$1.1 billion, representing 13% and 2%, respectively, of our total loans. Nonowner-occupied loans represented 11% of our total loans and owner-occupied loans represented 4% of our total loans. The average size of mortgage loans originated during 2015 was \$5.5 million, and our largest mortgage loan at December 31, 2015, had a balance of \$69.3 million. At December 31, 2015, our average construction loan commitment was \$8.5 million. Our largest construction loan commitment was \$48 million, and our largest construction loan amount outstanding was \$43 million.

Also shown in Figure 17, at December 31, 2015, 72% of our commercial real estate loans were for nonowner-occupied properties, compared to 70% at December 31, 2014. Approximately 15% of these loans were construction loans at both December 31, 2015, and December 31, 2014. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the construction loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn, in rental rates and occupancy, would adversely affect our portfolio of construction loans.

Figure 17. Commercial Real Estate Loans

	Geographic Region							Percent of			
	West	Southwest	Central	Midwest	Southeast	Northeast	National	Total	Total	Construction	
15											
ied:	\$ 204	\$ 102	\$ 69	\$ 119	\$ 266	\$ 94	\$ 144	\$ 998	11.1	%	\$ 181
	401	149	543	620	859	157	172	2,901	32.2		491
	218		134	127	331	206	15	1,031	11.4		161
	94	7	197	85	114	56		553	6.1		38
	133	2	45	98	35	83	167	563	6.3		57
	6		2	12	16	15	14	65	.7		
	14		11	6		6		37	.4		
	1		25	1	2	12	1	42	.5		8
	6		5	11	8	10		40	.4		32
	65	12	4	24	33	80	76	294	3.3		17
ed	1,142	272	1,035	1,103	1,664	719	589	6,524	72.4		985
	1,021	5	274	568	57	563		2,488	27.6		68
	\$ 2,163	\$ 277	\$ 1,309	\$ 1,671	\$ 1,721	\$ 1,282	\$ 589	\$ 9,012	100.0	%	\$ 1,053
14											
	\$ 2,518	\$ 307	\$ 1,261	\$ 1,668	\$ 1,393	\$ 1,315	\$ 685	\$ 9,147			\$ 1,100
15											

ied:

	\$	7	\$	9	\$	16	N/M	\$	7
ast ore ast)		2		4		6	N/M		
\$	2		5		1	8	N/M		1

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

During 2015, nonperforming loans related to our nonowner-occupied properties decreased by \$5 million from \$21 million at December 31, 2014, to \$16 million at December 31, 2015, as a result of continued improvement in asset quality and market conditions. This category of loans declined by \$2 million during 2014.

Since December 31, 2014, our nonowner-occupied commercial real estate portfolio has increased by approximately \$84 million, or 1.3%, as many of our clients have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

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Commercial lease financing. We conduct commercial lease financing arrangements through our KEF line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 9% of commercial loans at December 31, 2015, and 10% at December 31, 2014.

Commercial loan modification and restructuring

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

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

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

If loan terms are extended at less than normal market rates for similar lending arrangements, our Asset Recovery Group is consulted to help determine if any concession granted would result in designation as a TDR. Transfer to our Asset Recovery Group is considered for any commercial loan determined to be a TDR. During 2015, we had \$53 million of new restructured commercial loans compared to \$22 million of new restructured commercial loans in 2014.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 5 (Asset Quality).

Figure 18. Commercial TDRs by Accrual Status

December 31, <i>in millions</i>	2015	2014
Commercial TDRs by Accrual Status		
Nonaccruing	\$ 52	\$ 36
Accruing	2	4
Total Commercial TDRs	\$ 54	\$ 40

We often use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. Since the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This note structure typically will include a debt coverage ratio

of 1.2 or better of cash flow to monthly payments of market interest, and principal amortization of generally not more than 25 years. These metrics are adjusted from time to time based upon changes in long-term markets and take-out underwriting standards of our various lines of business. Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower's payment performance improves, these restructured notes typically also allow for an upgraded internal quality risk rating classification.

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The B note typically is a structurally subordinate note that may or may not require any debt service until the primary payment source stabilizes and generates excess cash flow. This excess cash flow customarily is captured for application to either the A note or B note dependent upon the terms of the restructure. We evaluate the B note when we consider returning the A note to accrual status. In many cases, the B note is charged off at the same time the A note is returned to accrual status in accordance with our interpretation of accounting and regulatory guidance applicable to TDRs. Alternatively, both A and B notes may be simultaneously returned to accrual if credit metrics are supportive.

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

All loans processed as TDRs, including A notes and any non-charged-off B notes, are reported as TDRs during the calendar year in which the restructure took place. At December 31, 2015, we had \$47 million and \$7 million of A note and B note commercial TDRs, respectively.

Additional information regarding TDRs is provided in Note 5 (Asset Quality).

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

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

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

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

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

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

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

Mortgage and construction loans with a loan-to-value ratio greater than 1.0 are accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support. As of December 31, 2015, we did not have any mortgage and construction loans that had a loan-to-value ratio greater than 1.0.

Consumer loan portfolio

Consumer loans outstanding decreased by \$396 million, or 2.5%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 98% of this portfolio at December 31, 2015, was originated from Key Community Bank within our 12-state footprint. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans in Key Community Bank decreased by \$239 million, or 2.3%, over the past 12 months.

As shown in Figure 13, we hold the first lien position for approximately 61% of the Key Community Bank home equity portfolio at December 31, 2015, and 60% at December 31, 2014. For consumer loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan-to-value ratio. This information is used in establishing the ALLL. Our methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses.

Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. This regulatory guidance related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not adjusted. At December 31, 2015, 39% of our home equity portfolio is secured by second lien mortgages. On at least a quarterly basis, we continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate.

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Figure 19 summarizes our home equity loan portfolio by source at the end of each of the last five years, as well as certain asset quality statistics and yields on the portfolio as a whole.

Figure 19. Home Equity Loans

December 31, <i>dollars in millions</i>	2015	2014	2013	2012	2011
SOURCES OF YEAR END LOANS					
Key					
Community					
Bank	\$ 10,127	\$ 10,366	\$ 10,340	\$ 9,816	\$ 9,229
Other	208	267	334	423	535
Total	\$ 10,335	\$ 10,633	\$ 10,674	\$ 10,239	\$ 9,764
Nonperforming loans at year end	\$ 190	\$ 195	\$ 220	\$ 231 ^{(a), (b)}	\$ 120
Net loan charge-offs for the year	21	32	66	118	130
Yield for the year	3.98 %	4.02 %	4.07 %	4.21 %	4.34 %

(a) Includes \$48 million of performing home equity second liens that are subordinate to first liens and 120 days or more past due or in foreclosure, or for which the first mortgage delinquency timeframe is unknown. Such second liens are now being reported as nonperforming loans based upon regulatory guidance issued in January 2012.

(b) Includes \$72 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed as addressed in regulatory guidance that was updated in the third quarter of 2012. Such loans have been designated as nonperforming and TDRs.

Loans held for sale

As shown in Note 4 (Loans and Loans Held for Sale), our loans held for sale were \$639 million at December 31, 2015, compared to \$734 million at December 31, 2014. During 2015, we recorded net gains from loan sales of \$103 million. There were no loans held for sale related to the discontinued operations of the education lending business at December 31, 2015, and December 31, 2014.

At December 31, 2015, loans held for sale included \$532 million of commercial mortgages, which decreased by \$106 million from December 31, 2014, \$76 million of commercial, financial and agricultural loans, which increased by \$13 million from December 31, 2014, \$17 million of residential mortgage loans, which decreased by \$1 million from

December 31, 2014, and \$14 million of commercial lease financing, which decreased by \$1 million from December 31, 2014. Valuations are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves and risk profiles, as well as our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. We review our assumptions quarterly. For additional information related to the valuation of loans held for sale, see Note 6 (Fair Value Measurements).

Loan sales

As shown in Figure 20, during 2015, we sold \$6.0 billion of commercial real estate loans, \$415 million of commercial lease financing loans, \$554 million of residential real estate loans, and \$335 million of commercial loans. Most of these sales came from the held-for-sale portfolio.

Among the factors that we consider in determining which loans to sell are:

- our business strategy for particular lending areas;
- whether particular lending businesses meet established performance standards or fit with our relationship banking strategy;
- our A/LM needs;

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• the cost of alternative funding sources;

• the level of credit risk;

• capital requirements; and

• market conditions and pricing.

Figure 20 summarizes our loan sales for 2015 and 2014.

Figure 20. Loans Sold (Including Loans Held for Sale)

<i>in millions</i>	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2015					
Fourth quarter	\$ 86	\$ 1,570	\$ 204	\$ 104	\$ 1,964
Third quarter	150	1,246	100	142	1,638
Second quarter	41	2,210	48	188	2,487
First quarter	58	1,010	63	120	1,251
Total	\$ 335	\$ 6,036	\$ 415	\$ 554	\$ 7,340
2014					
Fourth quarter	\$ 29	\$ 2,333	\$ 80	\$ 103	\$ 2,545
Third quarter	179	913	48	127	1,267
Second quarter	152	679	45	104	980
First quarter	16	489	39	73	617
Total	\$ 376	\$ 4,414	\$ 212	\$ 407	\$ 5,409

Figure 21 shows loans that are either administered or serviced by us but not recorded on the balance sheet. The table includes loans that have been sold.

Figure 21. Loans Administered or Serviced

December 31,

<i>in millions</i>	2015	2014	2013	2012	2011
Commercial real estate loans	\$ 211,274	\$ 191,407	\$ 177,731	\$ 107,630	\$ 99,608
Education loans ^(a)	1,339	1,589			

Commercial lease financing	932	722	717	520	521
Commercial loans	335	344	327	343	306
Total	\$ 213,880	\$ 194,062	\$ 178,775	\$ 108,493	\$ 100,435

(a) During the third quarter of 2014, we sold the residual interests in all of our outstanding education loan securitization trusts to a third party. At September 30, 2014, we deconsolidated the securitization trusts and removed the trust assets from our balance sheet. We retained the servicing for the loans associated with these securitization trusts. See Note 13 (Acquisitions and Discontinued Operations) for more information about this transaction.

In the event of default by a borrower, we are subject to recourse with respect to approximately \$1.8 billion of the \$214 billion of loans administered or serviced at December 31, 2015. Additional information about this recourse arrangement is included in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as other income) from fees for servicing or administering loans. This fee income is reduced by the amortization of related servicing assets. In addition, we earn interest income from investing funds generated by escrow deposits collected in connection with the servicing of commercial real estate loans. Additional information about our mortgage servicing assets is included in Note 9 (Mortgage Servicing Assets).

Table of Contents**Maturities and sensitivity of certain loans to changes in interest rates**

Figure 22 shows the remaining maturities of certain commercial and real estate loans, and the sensitivity of those loans to changes in interest rates. At December 31, 2015, approximately 28.7% of these outstanding loans were scheduled to mature within one year.

Figure 22. Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates**December 31, 2015**

<i>in millions</i>	Within One Year	One - Five Years	Over Five Years	Total
Commercial, financial and agricultural	\$ 8,942	\$ 17,845	\$ 4,453	\$ 31,240
Real estate construction	432	596	25	1,053
Real estate residential and commercial mortgage	2,838	5,549	1,814	10,201
	\$ 12,212	\$ 23,990	\$ 6,292	\$ 42,494
Loans with floating or adjustable interest rates ^(a)		\$ 20,621	\$ 3,639	\$ 24,260
Loans with predetermined interest rates ^(b)		3,369	2,653	6,022
		\$ 23,990	\$ 6,292	\$ 30,282

(a) Floating and adjustable rates vary in relation to other interest rates (such as the base lending rate) or a variable index that may change during the term of the loan.

(b) Predetermined interest rates either are fixed or may change during the term of the loan according to a specific formula or schedule.

Securities

Our securities portfolio totaled \$19.1 billion at December 31, 2015, compared to \$18.4 billion at December 31, 2014. Available-for-sale securities were \$14.2 billion at December 31, 2015, compared to \$13.4 billion at December 31, 2014. Held-to-maturity securities were \$4.9 billion at December 31, 2015, compared to \$5 billion at December 31, 2014.

As shown in Figure 23, all of our mortgage-backed securities, which include both securities available for sale and held-to-maturity securities, are issued by government-sponsored enterprises or GNMA, and are traded in liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio

and at cost for the held-to-maturity portfolio. For more information about these securities, see Note 6 (Fair Value Measurements) under the heading Qualitative Disclosures of Valuation Techniques, and Note 7 (Securities).

Figure 23. Mortgage-Backed Securities by Issuer

December 31,

<i>in millions</i>		2015		2014
FHLMC	\$	4,349	\$	5,666
FNMA		4,511		4,998
GNMA		10,152		7,636
Total ^(a)	\$	19,012	\$	18,300

(a) Includes securities held in the available-for-sale and held-to-maturity portfolios.

Securities available for sale

The majority of our securities available-for-sale portfolio consists of Federal Agency CMOs and mortgage-backed securities. CMOs are debt securities secured by a pool of mortgages or mortgage-backed securities. These mortgage securities generate interest income, serve as collateral to support certain pledging agreements, and

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provide liquidity value under regulatory requirements. At December 31, 2015, we had \$14.2 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to \$13.3 billion at December 31, 2014.

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

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

Throughout 2014 and 2015, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times during this time period served to provide the liquidity necessary to address our funding requirements. These funding requirements included ongoing loan growth and occasional debt maturities. At other times, we may make additional investments that go beyond the replacement of maturities or mortgage security cash flows as our liquidity position and/or interest rate risk management strategies may require. Lastly, our focus on investing in GNMA-related securities is also related to liquidity management strategies as we continue to prepare for future regulatory requirements.

Figure 24 shows the composition, yields, and remaining maturities of our securities available for sale. For more information about these securities, including gross unrealized gains and losses by type of security and securities pledged, see Note 7.

Figure 24. Securities Available for Sale

<i>Values in millions</i>	States and Political Subdivisions	Collateralized Mortgage Obligations	(a)	Other Mortgage-Backed Securities	(a)	Other Securities	(b)	Total	Weighted-Average Yield
December 31, 2015									
Remaining maturity:									
One year or less	\$ 2	\$ 285						\$ 287	3.05%
Over one through five years	12	11,209	\$	1,523	\$	13		12,757	2.12
Over five through ten years		501		663		7		1,171	2.12
Over ten years				3				3	5.40
Carrying value	\$ 14	\$ 11,995	\$	2,189	\$	20	\$	14,218	
Amortized cost	14	12,082		2,193		21		14,310	2.14%

Weighted-average yield (c)	6.19 %	2.12 %	2.21 %	2.14 % (d)		
Weighted-average maturity	3.2 years	3.9 years	4.3 years	4.4 years	3.9 years	
December 31, 2014						
Carrying value	\$ 23	\$ 11,270	\$ 2,035	\$ 32	\$ 13,360	
Amortized cost	22	11,310	2,004	29	13,365	2.24%
December 31, 2013						
Carrying value	\$ 40	\$ 11,000	\$ 1,286	\$ 20	\$ 12,346	
Amortized cost	39	11,120	1,270	17	12,446	2.33%

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

(b) Includes primarily marketable equity securities.

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

(d) Excludes \$20 million of securities at December 31, 2015, that have no stated yield.

Table of Contents**Held-to-maturity securities**

Federal Agency CMOs and mortgage-backed securities constitute essentially all of our held-to-maturity securities. The remaining balance comprises foreign bonds and capital securities. Figure 25 shows the composition, yields and remaining maturities of these securities.

Figure 25. Held-to-Maturity Securities

<i>dollars in millions</i>	Collateralized Mortgage Obligations	Other Mortgage- backed Securities	Other Securities	Total	Weighted- Average Yield	(a)
December 31, 2015						
Remaining maturity:						
One year or less			\$ 9	\$ 9	2.34	%
After one through five years	\$ 4,174		11	4,185	1.90	
After five through ten years		\$ 645		645	2.67	
After ten years		58		58	2.92	
Amortized cost	\$ 4,174	\$ 703	\$ 20	\$ 4,897	2.01	%
Fair value	4,129	699	20	4,848		
Weighted-average yield	1.90 %	2.69 %	2.64 %	2.01 %		(b)
Weighted-average maturity	3.4 years	7.2 years	1.7 years	3.9 years		
December 31, 2014						
Amortized cost	\$ 4,755	\$ 240	\$ 20	\$ 5,015	1.95	%
Fair value	4,713	241	20	4,974		
December 31, 2013						
Amortized cost	\$ 4,736		\$ 20	\$ 4,756	1.83	%
Fair value	4,597		20	4,617		

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

(b) Excludes \$5 million of securities at December 31, 2015, that have no stated yield.

Other investments

Principal investments investments in equity and debt instruments made by our Principal Investing unit represented 46% and 53% of other investments at December 31, 2015, and December 31, 2014, respectively. They include direct investments (investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value. The fair value of the direct investments was \$69 million at December 31, 2015, and \$104 million at December 31, 2014, while the fair value of the indirect investments was \$235 million at December 31, 2015, and \$302 million at December 31, 2014. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect principal investments. The Federal Reserve extended the conformance period to July 21, 2016, for all banking entities with respect to covered funds. The Federal Reserve also indicated its intent to exercise the authority granted by Section 13 of the Bank Holding Company Act to grant the final one-year extension until July 21, 2017. If this authority is not exercised by the Federal Reserve, Key is permitted to file for an additional extension of up to five years for illiquid funds, to retain the indirect investments for a longer period of time. We plan to apply for the extension, if not granted automatically, and hold the investments. As of December 31, 2015, we have not committed to a plan to sell these investments. For more information about the Volcker Rule, see the discussion in Item 1 under the heading Other Regulatory Developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real-estate-related investments and an indirect ownership interest in a partnership, that are carried at fair value, as well as other types of investments that generally are carried at cost. The real-estate-related investments were valued at \$8 million at December 31, 2015, and \$10 million at December 31, 2014. The indirect investment

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in a partnership was valued at \$4 million at December 31, 2014. Under the requirements of the Volcker Rule, we were required to dispose of this investment. Prior to December 31, 2015, the investment was redeemed. Additional information pertaining to the equity investment is included in the Changes in Level 3 Fair Value Measurements section of Note 6 (Fair Value Measurements).

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer's past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer's payment history, our knowledge of the industry, third-party data, and other relevant factors. As of December 31, 2015, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled \$51 million, which includes \$47 million of net unrealized losses. These net gains are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 6.

Deposits and other sources of funds

Domestic deposits are our primary source of funding. The composition of our average deposits is shown in Figure 5 in the section entitled Net interest income. During 2015, average domestic deposits were \$70.1 billion and represented 85% of the funds we used to support loans and other earning assets, compared to \$67.3 billion and 86% during 2014. NOW and money market deposit accounts increased \$2.0 billion, and noninterest-bearing deposits increased \$1.9 billion, reflecting continued growth in the commercial mortgage servicing business and inflows from commercial and consumer clients. These increases were partially offset by a decline in certificates of deposit.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged \$1.7 billion during 2015, compared to \$2.4 billion during 2014. The decrease from 2014 was caused by declines of \$550 million in federal funds purchased and securities sold under repurchase agreements, \$126 million in foreign office deposits, and \$25 million in bank notes and other short-term borrowings.

At December 31, 2015, we had \$2.4 billion in time deposits of \$100,000 or more. Figure 26 shows the maturity distribution of these deposits.

Figure 26. Maturity Distribution of Time Deposits of \$100,000 or More ^(a)

December 31, 2015

<i>in millions</i>	Domestic Offices		Total
Remaining maturity:			
Three months or less	\$	324	\$ 324
After three through six months		366	366
After six through twelve months		542	542
After twelve months		1,160	1,160
Total	\$	2,392	\$ 2,392

(a) There were no deposits in foreign offices at December 31, 2015.

Capital

At December 31, 2015, our shareholders' equity was \$10.7 billion, up \$216 million from December 31, 2014. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

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CCAR and capital actions

As part of its ongoing supervisory process, the Federal Reserve requires BHCs like KeyCorp to submit an annual comprehensive capital plan and to update that plan to reflect material changes in the BHC's risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. In January 2015, we submitted to the Federal Reserve and provided to the OCC our 2015 capital plan under the annual CCAR process. On March 11, 2015, the Federal Reserve announced that it did not object to our 2015 capital plan. The 2015 capital plan includes a common share repurchase program of up to \$725 million, which includes repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under the 2015 capital plan began in the second quarter of 2015 and were suspended in the fourth quarter of 2015 due to the pending merger with First Niagara. Share repurchases are expected to be included in the upcoming 2016 CCAR submission.

During 2015, we repurchased \$252 million of common shares under our 2015 capital plan authorization. In addition, during the first quarter of 2015, we repurchased \$208 million of common shares under our 2014 capital plan for a total of \$460 million of common share repurchases during 2015.

Dividends

As previously reported, our 2015 capital plan proposed an increase in our quarterly common share dividend from \$.065 to \$.075 per share, which was approved by our Board in May 2015. An additional potential increase in our quarterly common share dividend, up to \$.085 per share, will be considered by the Board in 2016 for the fifth quarter of the 2015 capital plan. Other changes to future dividends may be evaluated by the Board based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital planning process and CCAR is included in the "Supervision and Regulation" section of Item 1 of this report under the heading "Regulatory capital and liquidity."

Consistent with the 2015 capital plan, we made a dividend payment of \$.075 per share during each of the second, third, and fourth quarters of 2015, totalling \$189 million, and a dividend payment of \$.065 per share, or \$55 million, during the first quarter of 2015.

We also made quarterly dividend payments of \$1.9375 per share on our Series A Preferred Stock during each quarter of 2015 for a total of \$23 million.

Common shares outstanding

Our common shares are traded on the New York Stock Exchange under the symbol KEY with 27,058 holders of record at December 31, 2015. Our book value per common share was \$12.51 based on 835.8 million shares outstanding at December 31, 2015, compared to \$11.91 based on 859.4 million shares outstanding at December 31, 2014. At December 31, 2015, our tangible book value per common share was \$11.22, compared to \$10.65 at December 31, 2014.

Figure 45 in the section entitled "Fourth Quarter Results" shows the market price ranges of our common shares, per common share earnings, and dividends paid by quarter for each of the last two years.

Figure 27 compares the price performance of our common shares (based on an initial investment of \$100 on December 31, 2010, and assuming reinvestment of dividends) with that of the Standard & Poor's 500 Index and a group of other banks that constitute our peer group. The peer group consists of the banks that make up the Standard & Poor's 500 Regional Bank Index and the banks that make up the Standard & Poor's 500 Diversified Bank Index. We are

included in the Standard & Poor's 500 Index and the peer group.

Table of Contents**Figure 27. Common Share Price Performance (2011 – 2015^(a))**

(a) Share price performance is not necessarily indicative of future price performance.

Figure 28 shows activities that caused the change in our outstanding common shares over the past two years.

Figure 28. Changes in Common Shares Outstanding

<i>in thousands</i>	2015	Fourth	2015 Quarters			2014
			Third	Second	First	
Shares outstanding at beginning of period	859,403	835,285	843,608	850,920	859,403	890,724
Common shares repurchased	(31,267)		(8,386)	(8,794)	(14,087)	(36,285)
Shares reissued (returned) under employee benefit plans	7,582	466	63	1,482	5,571	4,964
Series A Preferred Stock exchanged for common shares	33				33	
Shares outstanding at end of period	835,751	835,751	835,285	843,608	850,920	859,403

At December 31, 2015, we had 181.2 million treasury shares, compared to 157.6 million treasury shares at December 31, 2014. During 2015, common shares outstanding decreased by 24 million shares due to common share repurchases under our 2014 and 2015 capital plans, partially offset by the net share activity under our employee benefit plans and shares of Series A Preferred Stock that were exchanged for common shares. Going forward, we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

As discussed in further detail in the Supervision and Regulation section in Item 1 of this report under the heading Capital planning and stress testing, we are required to annually submit a capital plan to the Federal Reserve setting forth planned capital actions, including any share repurchases our Board of Directors and management intend to make during the year (subject to the Federal Reserve's notice of non-objection). Pursuant to that requirement, we will submit our 2016 capital plan to the Federal Reserve for review in April 2016.

Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remained in excess of regulatory requirements at December 31, 2015. Our capital and liquidity levels are intended to position us to weather an adverse credit cycle while continuing to serve our clients' needs, as well as to meet the Regulatory Capital Rules described in the Supervision and regulation section of Item 1 of this report. Our shareholders' equity to assets ratio was 11.30% at December 31, 2015, compared to 11.22% at December 31, 2014. Our tangible common equity to

tangible assets ratio was 9.98% at December 31, 2015, compared to 9.88% at December 31, 2014.

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Federal banking regulators have promulgated minimum risk-based capital and leverage ratio requirements for BHCs like KeyCorp and their banking subsidiaries like KeyBank. As of January 1, 2015, Key and KeyBank (consolidated) were each required to maintain a minimum Tier 1 risk-based capital ratio of 6.00%, a total risk-based capital ratio of 8.00%, and a Tier 1 leverage ratio of 4.00%. At December 31, 2015, our Tier 1 risk-based capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio were 11.35%, 12.97%, and 10.72%, respectively, compared to 11.90%, 13.89%, and 11.26%, respectively, at December 31, 2014. In addition, as of January 1, 2015, Key and KeyBank (consolidated) were each required to maintain a minimum Common Equity Tier 1 capital ratio of 4.5%. At December 31, 2015, our Common Equity Tier 1 capital ratio was 10.94%.

The adoption of the Regulatory Capital Rules changes the regulatory capital standards that apply to BHCs by phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, which began January 1, 2015, for standardized approach banking organizations such as KeyCorp, will result in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital starting in 2016. The trust preferred securities issued by the KeyCorp capital trusts contribute \$85 million, or 9 basis points, to our Tier 1 risk-based capital ratio of 11.35% and Tier 1 leverage ratio of 10.72% at December 31, 2015. The trust preferred securities contribute \$340 million, or 38 basis points, to our total risk-based capital ratio of 12.97% at December 31, 2015. The new minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of Key at December 31, 2015, calculated on a fully phased-in basis, are set forth under the heading **New minimum capital and leverage ratio requirements** in the **Supervision and Regulation** section in Item 1 of this report.

As previously indicated in the **Supervision and Regulation** section of Item 1 of this report under the heading **Revised prompt corrective action capital category ratios**, the prompt corrective action capital category regulations do not apply to BHCs. If, however, these regulations did apply to BHCs, we believe KeyCorp would qualify for the **well capitalized** capital category at December 31, 2015. Moreover, after accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and as Tier 2 instead) as of December 31, 2015, we estimate KeyCorp would still qualify for the **well capitalized** capital category under the Regulatory Capital Rules, with an estimated Tier 1 risk-based capital ratio, estimated Tier 1 leverage ratio, estimated Common Equity Tier 1 capital ratio, and estimated total risk-based capital ratio of 11.26%, 10.63%, 10.94%, and 12.97%, respectively. The new threshold ratios for a **well capitalized** and an **adequately capitalized** institution under the Regulatory Capital Rules are described in the **Supervision and Regulation** section of Item 1 of this report under the heading **Revised prompt corrective action capital category ratios**. Since the regulatory capital categories under these regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in the section **Regulatory capital and liquidity** in **Supervision and Regulation** under Item 1 of this report.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. The Federal Reserve's assessment of capital adequacy previously focused on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of SIFIs, including KeyCorp. The capital modifications mandated by the Regulatory Capital Rules, which became effective on January 1, 2015, for Key, require higher and better-quality capital and introduced a new capital measure, **Common Equity Tier 1**. **Common Equity Tier 1** is not formally defined by GAAP and is considered to be a non-GAAP financial measure. Figure 4 in the **Highlights of Our Performance** section reconciles Key shareholders' equity, the GAAP performance measure, to **Common Equity Tier 1**, the corresponding non-GAAP measure. Our **Common Equity Tier 1** ratio was 10.94% at December 31, 2015.

At December 31, 2015, for Key's consolidated operations, we had a federal net deferred tax asset of \$289 million and a state deferred tax asset of \$32 million, compared to a federal net deferred tax asset of \$195 million and a state deferred tax asset of \$22 million at December 31, 2014. We had a valuation allowance against the gross deferred tax assets

associated with certain state net operating loss carryforwards and state credit carryforwards of

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less than \$1 million at December 31, 2015, and at December 31, 2014. Starting with the implementation of the Regulatory Capital Rules on January 1, 2015, deferred tax assets that arise from net operating loss and tax credit carryforwards are deductible from Common Equity Tier 1 on a phase-in basis. As of December 31, 2015, this balance was approximately \$1 million.

Figure 29 represents the details of our regulatory capital position at December 31, 2015, under the Regulatory Capital Rules.

Figure 30 represents the details of our regulatory capital position at December 31, 2014.

Figure 29. Capital Components and Risk-Weighted Assets (Regulatory Capital Rules)

December 31,

<i>dollars in millions</i>	2015
COMMON EQUITY TIER 1	
Key shareholders equity (GAAP)	\$ 10,746
Less: Series A Preferred Stock ^(a)	281
Common Equity Tier 1 capital before adjustments and deductions	10,465
Less: Goodwill, net of deferred taxes	1,034
Intangible assets, net of deferred taxes	26
Deferred tax assets	1
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(58)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(20)
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	(365)
Total Common Equity Tier 1 capital	\$ 9,847
TIER 1 CAPITAL	
Common Equity Tier 1	\$ 9,847
Additional Tier 1 capital instruments and related surplus	281
Non-qualifying capital instruments subject to phase out	85
Less: Deductions	1
Total Tier 1 capital	10,212
TIER 2 CAPITAL	
Tier 2 capital instruments and related surplus	578
Allowance for losses on loans and liability for losses on lending-related commitments ^(b)	881
Net unrealized gains on available-for-sale preferred stock classified as an equity security	
Less: Deductions	
Total Tier 2 capital	1,459
Total risk-based capital	\$ 11,671
RISK-WEIGHTED ASSETS	
Risk-weighted assets on balance sheet	\$ 67,390
Risk-weighted off-balance sheet exposure	21,983
Market risk-equivalent assets	607
Gross risk-weighted assets	89,980

Less: Excess allowance for loan and lease losses

Net risk-weighted assets	\$	89,980
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AVERAGE QUARTERLY TOTAL ASSETS

\$	95,272
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CAPITAL RATIOS

Tier 1 risk-based capital	11.35	%
Total risk-based capital	12.97	
Leverage ^(c)	10.72	
Common Equity Tier 1	10.94	

(a) Net of capital surplus.

(b) The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the institution's standardized total risk-weighted assets (excluding its standardized market risk-weighted assets). The ALLL includes \$28 million of allowance classified as discontinued assets on the balance sheet at December 31, 2015.

(c) This ratio is Tier 1 capital divided by average quarterly total assets as defined by the Federal Reserve less: (i) goodwill, (ii) the disallowed intangible and deferred tax assets, and (iii) other deductions from assets for leverage capital purposes.

Table of Contents**Figure 30. Capital Components and Risk-Weighted Assets****December 31,**

<i>dollars in millions</i>	2014
TIER 1 CAPITAL	
Key shareholders' equity	\$ 10,530
Qualifying capital securities	339
Less: Goodwill	1,057
Accumulated other comprehensive income ^(a)	(395)
Other assets ^(b)	83
Total Tier 1 capital	10,124
TIER 2 CAPITAL	
Allowance for losses on loans and liability for losses on lending-related commitments ^(c)	859
Net unrealized gains on equity securities available for sale	1
Qualifying long-term debt	840
Total Tier 2 capital	1,700
Total risk-based capital	\$ 11,824
TIER 1 COMMON EQUITY	
Tier 1 capital	\$ 10,124
Less: Qualifying capital securities	339
Series A Preferred Stock ^(d)	282
Total Tier 1 common equity	\$ 9,503
RISK-WEIGHTED ASSETS	
Risk-weighted assets on balance sheet	\$ 66,054
Risk-weighted off-balance sheet exposure	19,360
Less: Goodwill	1,057
Other assets ^(b)	120
Plus: Market risk-equivalent assets	863
Gross risk-weighted assets	85,100
Less: Excess allowance for loan and lease losses	-
Net risk-weighted assets	\$ 85,100
AVERAGE QUARTERLY TOTAL ASSETS	\$ 91,116
CAPITAL RATIOS	
Tier 1 risk-based capital	11.90 %
Total risk-based capital	13.89
Leverage ^(e)	11.26
Tier 1 common equity	11.17

- (a) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.
- (b) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at December 31, 2014.
- (c) The ALLL included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The ALLL includes \$29 million of allowance classified as discontinued assets on the balance sheet at December 31, 2014.
- (d) Net of capital surplus.
- (e) This ratio is Tier 1 capital divided by average quarterly total assets as defined by the Federal Reserve less:
 - (i) goodwill, (ii) the disallowed intangible assets described in footnote (b), and (iii) deductible portions of nonfinancial equity investments; plus assets derecognized as an offset to AOCI resulting from the adoption and subsequent application of the applicable accounting guidance for defined benefit and other postretirement plans.

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Off-balance sheet arrangements

We are party to various types of off-balance sheet arrangements, which could lead to contingent liabilities or risks of loss that are not reflected on the balance sheet.

Variable interest entities

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

- ⊆ The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.
- ⊆ The entity's investors lack the power to direct the activities that most significantly impact the entity's economic performance.
- ⊆ The entity's equity at risk holders do not have the obligation to absorb losses or the right to receive residual returns.
- ⊆ The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity's activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Additional information regarding the nature of VIEs and our involvement with them is included in Note 1 (Summary of Significant Accounting Policies) under the heading Basis of Presentation, and in Note 11 (Variable Interest Entities).

We use the equity method to account for unconsolidated investments in voting rights entities or VIEs if we have significant influence over the entity's operating and financing decisions (usually defined as a voting or economic interest of 20% to 50%, but not controlling). Unconsolidated investments in voting rights entities or VIEs in which we have a voting or economic interest of less than 20% generally are carried at cost. Investments held by our registered broker-dealer and investment company subsidiaries (primarily principal investments) are carried at fair value.

Commitments to extend credit or funding

Loan commitments provide for financing on predetermined terms as long as the client continues to meet specified criteria. These commitments generally carry variable rates of interest and have fixed expiration dates or other termination clauses. We typically charge a fee for our loan commitments. Since a commitment may expire without

resulting in a loan or being fully utilized, the total amount of an outstanding commitment may significantly exceed any related cash outlay. Further information about our loan commitments at December 31, 2015, is presented in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Commitments to Extend Credit or Funding. Figure 31 shows the remaining contractual amount of each class of commitment to extend credit or funding. For loan commitments and commercial letters of credit, this amount represents our maximum possible accounting loss on the unused commitment if the borrower were to draw upon the full amount of the commitment and subsequently default on payment for the total amount of the then outstanding loan.

Table of Contents**Other off-balance sheet arrangements**

Other off-balance sheet arrangements include financial instruments that do not meet the definition of a guarantee in accordance with the applicable accounting guidance, and other relationships, such as liquidity support provided to asset-backed commercial paper conduits, indemnification agreements and intercompany guarantees. Information about such arrangements is provided in Note 20 under the heading Other Off-Balance Sheet Risk.

Contractual obligations

Figure 31 summarizes our significant contractual obligations, and lending-related and other off-balance sheet commitments at December 31, 2015, by the specific time periods in which related payments are due or commitments expire.

Figure 31. Contractual Obligations and Other Off-Balance Sheet Commitments

December 31, 2015						
<i>in millions</i>	Within 1	After 1	After 3	After 5		Total
	year	through 3	through 5	years		
		years	years			
Contractual obligations: ^(a)						
Deposits with no stated maturity	\$ 65,527				\$ 65,527	
Time deposits of \$100,000 or more	1,232	\$ 1,056	\$ 39	\$ 65		2,392
Other time deposits	2,075	883	59	110		3,127
Federal funds purchased and securities sold under repurchase agreements	372					372
Bank notes and other short-term borrowings	533					533
Long-term debt	1,346	3,156	2,790	2,894		10,186
Noncancelable operating leases	110	190	130	326		756
Liability for unrecognized tax benefits	12					12
Purchase obligations:						
Banking and financial data services	71	129	20			220
Telecommunications	23	23	7			53
Professional services	35	21	8			64
Technology equipment and software	53	94	38	16		201
Other	17	17	7			41
Total purchase obligations	199	284	80	16		579
Total	\$ 71,406	\$ 5,569	\$ 3,098	\$ 3,411	\$ 83,484	

Lending-related and other
off-balance sheet
commitments:

Commercial, including real estate	\$	9,508	\$	9,247	\$	9,757	\$	1,259	\$	29,771
Home equity		318		1,139		908		4,855		7,220
Credit cards		3,603								3,603
Purchase cards		163								163
When-issued and to-be-announced securities commitments		2								2
Commercial letters of credit		127		12						139
Principal investing commitments		30		16		4				50
Tax credit investment commitments		410								410
Liabilities of certain limited partnerships and other commitments		1								1
Total	\$	14,162	\$	10,414	\$	10,669	\$	6,114	\$	41,359

(a) Deposits and borrowings exclude interest.

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Guarantees

We are a guarantor in various agreements with third parties. As guarantor, we may be contingently liable to make payments to the guaranteed party based on changes in a specified interest rate, foreign exchange rate or other variable (including the occurrence or nonoccurrence of a specified event). These variables, known as underlyings, may be related to an asset or liability, or another entity's failure to perform under a contract. Additional information regarding these types of arrangements is presented in Note 20 under the heading Guarantees.

Risk Management

Overview

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

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

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

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

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

Our ERM Committee, chaired by the Chief Executive Officer and comprising other senior level executives, is responsible for managing risk and ensuring that the corporate risk profile is managed in a manner consistent with our

risk appetite. The ERM Program encompasses our risk philosophy, policy, framework, and governance structure for the management of risks across the entire company. The ERM Committee reports to the Board s

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Risk Committee. Annually, the Board reviews and approves the ERM Policy, as well as the risk appetite, including corporate risk tolerances for major risk categories. We use a risk-adjusted capital framework to manage risks. This framework is approved and managed by the ERM Committee.

Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks, and discussing forward-looking assessments. Risk Governance Committees include attendees from each of the Three Lines of Defense. The First Line of Defense is the Line of Business primarily responsible to accept, own, proactively identify, monitor, and manage risk. The Second Line of Defense comprises Risk Management representatives who provide independent, centralized oversight over all risk categories by aggregating, analyzing, and reporting risk information. Risk Review, our internal audit function, provides the Third Line of Defense in their role to provide independent assessment and testing of the effectiveness, appropriateness, and adherence to KeyCorp's risk management policies, practices, and controls.

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

Federal banking regulators continue to emphasize with financial institutions the importance of relating capital management strategy to the level of risk at each institution. We believe our internal risk management processes help us achieve and maintain capital levels that are commensurate with our business activities and risks, and conform to regulatory expectations.

Market risk management

Market risk is the risk that movements in market risk factors, including interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, and volatilities will reduce Key's income and the value of its portfolios. These factors influence prospective yields, values, or prices associated with the instrument. For example, the value of a fixed-rate bond will decline when market interest rates increase, while the cash flows associated with a variable rate loan will increase when interest rates increase. The holder of a financial instrument is exposed to market risk when either the cash flows or the value of the instrument is tied to such external factors.

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

Trading market risk

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

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

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

Covered positions. We monitor the market risk of our covered positions, which includes all of our trading positions as well as all foreign exchange and commodity positions, regardless of whether the position is in a trading account. All positions in the trading account are recorded at fair value, and changes in fair value are reflected in our consolidated statements of income. Information regarding our fair value policies, procedures, and methodologies is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements , and Note 6 (Fair Value Measurements) in this report. Instruments that are used to hedge nontrading activities, such as bank-issued debt and loan portfolios, equity positions that are not actively traded, and securities financing activities, do not meet the definition of a covered position. The MRM is responsible for identifying our portfolios as either covered or non-covered. The Covered Position Working Group develops the final list of covered positions, and a summary is provided to the Market Risk Committee.

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

- ⌚ Fixed income includes those instruments associated with our capital markets business and the trading of securities as a dealer. These instruments may include positions in municipal bonds, bonds backed by the U.S. government, agency and corporate bonds, certain mortgage-backed securities, securities issued by the U.S. Treasury, money markets, and certain CMOs. The activities and instruments within the fixed income portfolio create exposures to interest rate and credit spread risks.
- ⌚ Interest rate derivatives include interest rate swaps, caps, and floors, which are transacted primarily to accommodate the needs of commercial loan clients. In addition, we enter into interest rate derivatives to offset or mitigate the interest rate risk related to the client positions. The activities within this portfolio create exposures to interest rate risk.
- ⌚ Credit derivatives generally include credit default swap indexes, which are used to manage the credit risk exposure associated with anticipated sales of certain commercial real estate loans. The transactions within the

credit derivatives portfolio result in exposure to counterparty credit risk and market risk.

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

We use a historical VaR model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions. Historical scenarios

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are customized for specific covered positions, and numerous risk factors are incorporated in the calculation. Additional consideration is given to the risk factors to estimate the exposures that contain optionality features, such as options and cancelable provisions. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level.

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

Actual losses for the total covered positions did not exceed aggregate daily VaR on any day during the quarters ended December 31, 2015, and December 31, 2014. The MRM backtests our VaR model on a daily basis to evaluate its predictive power. The test compares VaR model results at the 99% confidence level to daily held profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR.

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

The aggregate VaR at the 99% confidence level for all covered positions was \$1.2 million at December 31, 2015, and \$.9 million at December 31, 2014. The increase in aggregate VaR was primarily due to the increased exposure in our credit derivative portfolio, and the composition of our fixed income portfolio. Figure 32 summarizes our VaR at the 99% confidence level for significant portfolios of covered positions for the three months ended December 31, 2015, and December 31, 2014. During this period, none of our significant portfolios daily trading VaR numbers exceeded their VaR limits or stress VaR limits.

Figure 32. VaR for Significant Portfolios of Covered Positions

<i>in millions</i>	2015			2014		
	Three months ended December 31, 2015			Three months ended December 31, 2014		
	High	Low	MD	High	Low	MD
Trading account assets:						
Fixed income	\$ 1.0	\$.4	\$.6	\$.5	\$.3	\$.4
Derivatives:						
Interest rate	\$.1		\$.1	\$.1		\$.1
Credit	.4	\$.2	.3	.4	\$.1	.2

Stressed VaR is calculated using our general VaR results at the 99% confidence level and applying certain assumptions. The aggregate stressed VaR for all covered positions was \$3.5 million at December 31, 2015, and \$2.6

million at December 31, 2014. Figure 33 summarizes our stressed VaR for significant portfolios of covered positions for the three months ended December 31, 2015, and December 31, 2014, as used for market risk capital charge calculation purposes.

Table of Contents**Figure 33. Stressed VaR for Significant Portfolios of Covered Positions**

<i>in millions</i>	2015				2014				
	Three months ended December 31,		Three months ended December 31,		Three months ended December 31,		Three months ended December 31,		
	High	Low	Median	High	Low	Median	High	Low	Median
Trading account assets:									
Fixed income	\$ 3.0	\$ 1.3	\$ 1.9	\$ 1.5	\$ 1.6	\$.8	\$ 1.2	\$ 1.2	\$ 1.2
Derivatives:									
Interest rate	\$.3	\$.1	\$.2	\$.3	\$.8	\$.1	\$.2	\$.2	\$.2
Credit	1.3	.5	.9	1.3	1.0	.4	.7	.9	.9

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

Nontrading market risk

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

Interest rate risk positions are influenced by a number of factors including the balance sheet positioning that arises out of consumer preferences for loan and deposit products, economic conditions, the competitive environment within our markets, changes in market interest rates that affect client activity, and our hedging, investing, funding, and capital positions. The primary components of interest rate risk exposure consist of reprice risk, basis risk, yield curve risk, and option risk.

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

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

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

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

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

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

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

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

Figure 34 presents the results of the simulation analysis at December 31, 2015, and December 31, 2014. At December 31, 2015, our simulated exposure to changes in interest rates was moderately asset sensitive, and net interest income would benefit over time from either an increase in short-term or intermediate-term interest rates. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next 12 months would adversely affect net interest income over the same period by more than 4%. In December 2015, the Federal Reserve increased the range for the Federal Funds Target Rate, which led to an increased modeled exposure to declining interest rates. Subsequent to the Federal Reserve's action in December, we increased the magnitude of the declining rate scenario to 50 basis points, increasing our overall modeled exposure. The modeled exposure depends on the relationships of interest rates on our interest earning assets and interest bearing liabilities, notably on instruments that are expected to react to the short end of the yield curve. As shown in Figure 34, we are operating within these levels as of December 31, 2015.

Table of Contents**Figure 34. Simulated Change in Net Interest Income****December 31, 2015**

Basis point change assumption (short-term rates)	-50	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-3.37 %	2.58 %

December 31, 2014

Basis point change assumption (short-term rates)	-25	+200
Tolerance level	-4.00 %	-4.00 %
Interest rate risk assessment	-.96 %	3.20 %

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicates that net interest income could increase or decrease from the base simulation results presented in Figure 34. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate increases and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. The unprecedented low level of interest rates increases the uncertainty of assumptions for deposit balance behavior and deposit repricing relationships to market interest rates. Recent balance growth in deposits has caused the uncertainty in assumptions to increase further. Our historical deposit repricing betas in the last rising rate cycle ranged between 50% and 60% for interest-bearing deposits, and we continue to make similar assumptions in our modeling. The sensitivity testing of these assumptions supports our confidence that actual results are likely to be within a 100 basis point range of modeled results.

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

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

Economic value of equity modeling. EVE complements net interest income simulation analysis as it estimates risk exposure beyond 12-, 24-, and 36-month horizons. EVE modeling measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease in interest rates, measuring the resulting change in the values of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the base case of the current interest rate environment. Because the calculation of EVE under an immediate 200 basis point decrease in interest rates in the current low rate environment results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points, we have modified the standard declining rate scenario to an immediate 100 basis point decrease. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate

increase or decrease in interest rates. We are operating within these guidelines as of December 31, 2015.

Management of interest rate exposure. We use the results of our various interest rate risk analyses to formulate A/LM strategies to achieve the desired risk profile while managing to our objectives for capital adequacy and liquidity risk exposures. Specifically, we manage interest rate risk positions by purchasing

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securities, issuing term debt with floating or fixed interest rates, and using derivatives predominantly in the form of interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities.

Figure 35 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a receive fixed/pay variable interest rate swap. The volume, maturity and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 8 (Derivatives and Hedging Activities).

Figure 35. Portfolio Swaps by Interest Rate Risk Management Strategy**December 31, 2015**

<i>dollars in millions</i>	Notional		Fair Value	Maturity (Years)	Weighted-Average		December 31, 2014		Fair Value		
	Amount	Amount			Receive Rate	Pay Rate	Notional Amount	Notional Amount			
Receive fixed/pay variable conventional A/LM ^(a)	\$	11,705	\$	4	2.5	1.1 %	.3 %	\$	9,700	\$	(4)
Receive fixed/pay variable conventional debt		7,004		189	3.5	2.0	.4		5,124		209
Pay fixed/receive variable conventional debt		50		(7)	12.5	.3	3.6		50		(7)
Total portfolio swaps	\$	18,759	\$	186 ^(b)	2.9	1.4 %	.3 %	\$	14,874	\$	198 ^(b)

(a) Portfolio swaps designated as A/LM are used to manage interest rate risk tied to both assets and liabilities.

(b)

Excludes accrued interest of \$56 million and \$49 million for December 31, 2015, and December 31, 2014, respectively.

Liquidity risk management

Liquidity risk, which is inherent in the banking industry, is measured by our ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund new business opportunities at a reasonable cost, in a timely manner, and without adverse consequences. Liquidity management involves maintaining sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets and liabilities under both normal and adverse conditions.

Governance structure

We manage liquidity for all of our affiliates on an integrated basis. This approach considers the unique funding sources available to each entity, as well as each entity's capacity to manage through adverse conditions. The approach also recognizes that adverse market conditions or other events that could negatively affect the availability or cost of liquidity will affect the access of all affiliates to sufficient wholesale funding.

The management of consolidated liquidity risk is centralized within Corporate Treasury. Oversight and governance is provided by the Board, the ERM Committee, the ALCO, and the Chief Risk Officer. The Asset Liability Management Policy provides the framework for the oversight and management of liquidity risk and is administered by the ALCO. The MRM, as the second line of defense, provides additional oversight. Our current liquidity risk management practices are in compliance with the Federal Reserve Board's Enhanced Prudential Standards.

These committees regularly review liquidity and funding summaries, liquidity trends, peer comparisons, variance analyses, liquidity projections, hypothetical funding erosion stress tests, and goal tracking reports. The reviews generate a discussion of positions, trends, and directives on liquidity risk and shape a number of our decisions. When liquidity pressure is elevated, positions are monitored more closely and reporting is more intensive. To ensure that emerging issues are identified, we also communicate with individuals inside and outside of the company on a daily basis.

Table of Contents**Factors affecting liquidity**

Our liquidity could be adversely affected by both direct and indirect events. An example of a direct event would be a downgrade in our public credit ratings by a rating agency. Examples of indirect events (events unrelated to us) that could impair our access to liquidity would be an act of terrorism or war, natural disasters, political events, or the default or bankruptcy of a major corporation, mutual fund or hedge fund. Similarly, market speculation, or rumors about us or the banking industry in general, may adversely affect the cost and availability of normal funding sources.

Following our announced acquisition of First Niagara in October 2015, S&P and Fitch affirmed Key's ratings but changed the outlook to negative. Moody's placed Key's ratings under review for downgrade. The Moody's review could be outstanding beyond the targeted merger completion date.

Our credit ratings at December 31, 2015, are shown in Figure 36. We believe these credit ratings, under normal conditions in the capital markets, will enable KeyCorp or KeyBank to issue fixed income securities to investors.

Figure 36. Credit Ratings

	Short-Term Borrowings	Long-Term Deposits	Senior	Subordinated	Series A		
			Long-Term Debt	Long-Term Debt Securities	Capital Preferred Stock		
December 31, 2015							
KEYCORP (THE PARENT COMPANY)							
Standard & Poor's	A-2	N/A	BBB+	BBB	BB+	BB+	
Moody's	P-2	N/A	Baa1	Baa1	Baa2	Baa3	
Fitch	F1	N/A	A-	BBB+	BB+	BB	
DBRS	R-2(high)	N/A	BBB(high)	BBB	BBB	N/A	
KEYBANK							
Standard & Poor's	A-2	N/A	A-	BBB+	N/A	N/A	
Moody's	P-1	Aa3	A3	Baa1	N/A	N/A	
Fitch	F1	A	A-	BBB+	N/A	N/A	
DBRS	R-1(low)	A(low)	A(low)	BBB(high)	N/A	N/A	

Managing liquidity risk

Most of our liquidity risk is derived from our lending activities, which inherently places funds into illiquid assets. Liquidity risk is also derived from our deposit gathering activities and the ability of our customers to withdraw funds that do not have a stated maturity or to withdraw funds before their contractual maturity. The assessments of liquidity risk are measured under the assumption of normal operating conditions as well as under a stressed environment. We manage these exposures in accordance with our risk appetite, and within Board-approved policy limits.

We regularly monitor our liquidity position and funding sources and measure our capacity to obtain funds in a variety of hypothetical scenarios in an effort to maintain an appropriate mix of available and affordable funding. In the normal course of business, we perform a monthly hypothetical funding erosion stress test for both KeyCorp and KeyBank. In a heightened monitoring mode, we may conduct the hypothetical funding erosion stress tests more frequently, and use assumptions to reflect the changed market environment. Our testing incorporates estimates for loan and deposit lives based on our historical studies. Erosion stress tests analyze potential liquidity scenarios under various funding constraints and time periods. Ultimately, they determine the periodic effects that major direct and indirect events would have on our access to funding markets and our ability to fund our normal operations. To compensate for the effect of these assumed liquidity pressures, we consider alternative sources of liquidity and maturities over different time periods to project how funding needs would be managed.

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and

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responsibilities for managing liquidity through a problem period. As part of the plan, we maintain on-balance sheet liquid reserves referred to as our liquid asset portfolio, which consists of high quality liquid assets. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at December 31, 2015, totaled \$15.4 billion, consisting of \$12.9 billion of unpledged securities, \$584 million of securities available for secured funding at the FHLB, and \$1.9 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of December 31, 2015, our unused borrowing capacity secured by loan collateral was \$18.9 billion at the Federal Reserve Bank of Cleveland and \$3.0 billion at the FHLB. In 2015, Key's outstanding FHLB advances were reduced by \$33 million due to repayments.

Final U.S. liquidity coverage ratio

Under the Liquidity Coverage Rules, we will be required to calculate the Modified LCR for Key. Implementation for Modified LCR banking organizations, like Key, began on January 1, 2016, with a minimum requirement of 90% coverage, reaching 100% coverage by January 1, 2017. At December 31, 2015, our estimated Modified LCR was above 100%. In the future, we may change the composition of our investment portfolio, increase the size of the overall investment portfolio, and modify product offerings to enhance or optimize our liquidity position.

Additional information about the Liquidity Coverage Ratio is included in the Supervision and Regulation section under the heading U.S. implementation of the Basel III liquidity framework in Item 1 of this report.

Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, we may use wholesale funds to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key's client-based relationship strategy provides for a strong core deposit base that, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan-to-deposit ratio as a metric to monitor these strategies. Our target loan-to-deposit ratio is 90-100% (at December 31, 2015, our loan-to-deposit ratio was 88%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by domestic deposits.

Sources of liquidity

Our primary sources of liquidity include customer deposits, wholesale funding, and liquid assets. If the cash flows needed to support operating and investing activities are not satisfied by deposit balances, we rely on wholesale funding or on-balance sheet liquid reserves. Conversely, excess cash generated by operating, investing, and deposit-gathering activities may be used to repay outstanding debt or invest in liquid assets.

Liquidity programs

We have several liquidity programs, which are described in Note 18 (Long-Term Debt), that are designed to enable KeyCorp and KeyBank to raise funds in the public and private debt markets. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. These liquidity programs are reviewed from time to time by the Board and are renewed and replaced as necessary. There are no restrictive financial covenants in any of these programs.

On February 12, 2015, KeyBank issued \$1 billion of 2.250% Senior Bank Notes due March 16, 2020, under its Global Bank Note Program. On June 1, 2015, under its Global Bank Note Program, KeyBank issued \$1.75 billion of Senior Bank Notes in three tranches; \$250 million of Floating Rate Notes due June 1, 2018; \$750

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million of 1.700% Senior Notes due June 1, 2018; and \$750 million of 3.300% Senior Notes due June 1, 2025. On September 29, 2015, we updated the KeyBank Global Bank Note Program. This program has \$20 billion authorized for issuance, separate from the \$20 billion authorized under the 2012 program. There will be no additional notes issued under the 2012 program.

On May 22, 2015, KeyBank remarketed \$300 million of 3.18% Term Enhanced ReMarketable Securities senior debt.

On September 15, 2015, KeyCorp issued \$1 billion of 2.90% Senior Medium-Term Notes due September 15, 2020, under its Medium-Term Note Program.

Liquidity for KeyCorp

The primary source of liquidity for KeyCorp is from subsidiary dividends, primarily from KeyBank. KeyCorp has sufficient liquidity when it can service its debt; support customary corporate operations and activities (including acquisitions); support occasional guarantees of subsidiaries' obligations in transactions with third parties at a reasonable cost, in a timely manner, and without adverse consequences; and pay dividends to shareholders.

We use a parent cash coverage months metric as the primary measure to assess parent company liquidity. The parent cash coverage months metric measures the months into the future where projected obligations can be met with the current amount of liquidity. We generally issue term debt to supplement dividends from KeyBank to manage our liquidity position at or above our targeted levels. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over at least the next 24 months. At December 31, 2015, KeyCorp held \$2.7 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our risk tolerance.

Typically, KeyCorp meets its liquidity requirements through regular dividends from KeyBank, supplemented with term debt. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank's dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During 2015, KeyBank paid \$1 billion in dividends to KeyCorp. At January 1, 2016, KeyBank had regulatory capacity to pay \$553 million in dividends to KeyCorp without prior regulatory approval.

Our liquidity position and recent activity

Over the past 12 months, our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has increased as a result of an increase in unpledged securities offset by net customer loan and deposit flows. The liquid asset portfolio continues to exceed the amount that we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer-term solution.

From time to time, KeyCorp or KeyBank may seek to retire, repurchase, or exchange outstanding debt, capital securities, preferred shares, or common shares through cash purchase, privately negotiated transactions or other means. Additional information on repurchases of common shares by KeyCorp is included in Part II, Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this report. Such transactions depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, regulatory requirements, and other factors. The amounts involved may be material, individually or collectively.

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We generate cash flows from operations and from investing and financing activities. We have approximately \$185 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2015. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately \$2 million in taxes to be paid. We have included the appropriate amount as a deferred tax liability at December 31, 2015.

The Consolidated Statements of Cash Flows summarize our sources and uses of cash by type of activity for the years ended December 31, 2015, and December 31, 2014.

Credit risk management

Credit risk is the risk of loss to us arising from an obligor's inability or failure to meet contractual payment or performance terms. Like other financial services institutions, we make loans, extend credit, purchase securities, and enter into financial derivative contracts, all of which have related credit risk.

Credit policy, approval, and evaluation

We manage credit risk exposure through a multifaceted program. The Credit Risk Committee approves both retail and commercial credit policies. These policies are communicated throughout the organization to foster a consistent approach to granting credit.

Our credit risk management team is responsible for credit approval, is independent of our lines of business, and consists of senior officers who have extensive experience in structuring and approving loans. Only credit risk management members are authorized to grant significant exceptions to credit policies. It is not unusual to make exceptions to established policies when mitigating circumstances dictate, but most major lending units have been assigned specific thresholds to keep exceptions at an acceptable level based upon portfolio and economic considerations.

Loan grades are assigned at the time of origination, verified by the credit risk management team and periodically reevaluated thereafter. Most extensions of credit are subject to loan grading or scoring. This risk rating methodology blends our judgment with quantitative modeling. Commercial loans generally are assigned two internal risk ratings. The first rating reflects the probability that the borrower will default on an obligation; the second rating reflects expected recovery rates on the credit facility. Default probability is determined based on, among other factors, the financial strength of the borrower, an assessment of the borrower's management, the borrower's competitive position within its industry sector, and our view of industry risk within the context of the general economic outlook. Types of exposure, transaction structure and collateral, including credit risk mitigants, affect the expected recovery assessment.

Our credit risk management team uses risk models to evaluate consumer loans. These models, known as scorecards, forecast the probability of serious delinquency and default for an applicant. The scorecards are embedded in the application processing system, which allows for real-time scoring and automated decisions for many of our products. We periodically validate the loan grading and scoring processes.

We maintain an active concentration management program to mitigate concentration risk in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the type of loan and strength of the borrower. Our legal lending limit is approximately \$1.6 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of December 31, 2015, we had five client relationships with loan commitments net of credit default swaps of more than \$200 million. The average amount outstanding on these five individual net obligor commitments was \$45 million at

December 31, 2015. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

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We actively manage the overall loan portfolio in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate portfolio credit risk. We utilize credit default swaps on a limited basis to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At December 31, 2015, we used credit default swaps with a notional amount of \$346 million to manage the credit risk associated with specific commercial lending obligations. We may also sell credit derivatives primarily single name credit default swaps to offset our purchased credit default swap position prior to maturity. At December 31, 2015, we did not have any sold credit default swaps outstanding.

Credit default swaps are recorded on the balance sheet at fair value. Related gains or losses, as well as the premium paid or received for credit protection, are included in the corporate services income and other income components of noninterest income.

Allowance for loan and lease losses

At December 31, 2015, the ALLL was \$796 million, or 1.33% of period-end loans, compared to \$794 million, or 1.38%, at December 31, 2014. The allowance includes \$35 million that was specifically allocated for impaired loans of \$308 million at December 31, 2015, compared to \$40 million that was specifically allocated for impaired loans of \$302 million at December 31, 2014. For more information about impaired loans, see Note 5 (Asset Quality). At December 31, 2015, the ALLL was 205.7% of nonperforming loans, compared to 190.0% at December 31, 2014.

Selected asset quality statistics for each of the past five years are presented in Figure 37. The factors that drive these statistics are discussed in the remainder of this section.

Figure 37. Selected Asset Quality Statistics from Continuing Operations

Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	2012	2011
Net loan charge-offs	\$ 142	\$ 113	\$ 168	\$ 345	\$ 541
Net loan charge-offs to average total loans	.24 %	.20 %	.32 %	.69 %	1.11 %
Allowance for loan and lease losses	\$ 796	\$ 794	\$ 848	\$ 888	\$ 1,004
Allowance for credit losses (a)	852	829	885	917	1,049
Allowance for loan and lease losses to period-end loans	1.33 %	1.38 %	1.56 %	1.68 %	2.03 %
Allowance for credit losses to period-end loans	1.42	1.44	1.63	1.74	2.12
Allowance for loan and lease losses to nonperforming loans	205.7	190.0	166.9	131.8	138.1
Allowance for credit losses to nonperforming loans	220.2	198.3	174.2	136.1	144.3
Nonperforming loans at period end (b)	\$ 387	\$ 418	\$ 508	\$ 674	\$ 727
	403	436	531	735	859

Nonperforming assets at
period end

Nonperforming loans to period-end portfolio loans	.65 %	.73 %	.93 %	1.28 %	1.47 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	.67	.76	.97	1.39	1.73

(a) Includes the ALLL plus the liability for credit losses on lending-related unfunded commitments.

(b) Loan balances exclude \$11 million, \$13 million, \$16 million, and \$23 million of PCI loans at December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

We estimate the appropriate level of the ALLL on at least a quarterly basis. The methodology used is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses. Briefly, our allowance applies expected loss rates to existing loans with similar risk characteristics. We exercise judgment to assess any adjustment to the expected loss rates for the impact of factors such as changes in economic conditions, lending policies including underwriting standards, and the level of credit risk associated with specific industries and markets.

In the third quarter of 2015, we enhanced the approach used to determine the commercial reserve factors used in estimating the quantitative component of the commercial ALLL. In addition, we began utilizing an enhanced framework to quantify commercial ALLL adjustments resulting from qualitative factors not fully captured within the statistical analysis of incurred loss. The enhancements of the methodology are described in Note 1 (Basis of

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Presentation and Accounting Policies) under the heading Allowance for Loan and Lease Losses. As a result of the methodology enhancements, the ALLL within each commercial portfolio and the provision for credit losses within each business segment has increased or decreased accordingly. The impact of the increases or decreases on the commercial portfolio ALLL and the business segment provision for credit losses was not significant.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of \$2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2015, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

As shown in Figure 38, our ALLL from continuing operations remained relatively stable, increasing by \$2 million, or .3%, since 2014. Our allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors, such as changes in economic conditions, underwriting standards, and concentrations of credit. Our commercial ALLL increased by \$33 million, or 5.3%, since 2014 primarily because of loan growth and increased incurred loss estimates. The increase in these incurred loss estimates during 2015 was primarily due to the continued decline in oil and gas prices since 2014. Partially offsetting this increase was a decrease in our consumer ALLL of \$31 million, or 18.1%, since 2014. Our consumer ALLL decrease was primarily due to continued improvement in credit metrics, such as delinquency, average credit bureau score, and loan to value, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics since 2014 was primarily due to continued improved credit quality and benefits of relatively stable economic conditions. Our liability for credit losses on lending-related commitments increased by \$21 million to \$56 million at December 31, 2015. When combined with our ALLL, our total allowance for credit losses represented 1.42% of period-end loans at December 31, 2015, compared to 1.44% at December 31, 2014.

Table of Contents**Figure 38. Allocation of the Allowance for Loan and Lease Losses**

	2015			2014			2013	
	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Total Allowance	Percent of Allowance to Total Allowance
\$ 31, millions	\$ 450	56.5 %	52.2 %	\$ 391	49.2 %	48.8 %	\$ 362	42.7 %
Commercial real estate	134	16.8	13.3	148	18.7	14.0	165	19.4
Commercial	25	3.2	1.7	28	3.5	1.9	32	3.8
Commercial loans	159	20.0	15.0	176	22.2	15.9	197	23.2
Commercial lease	47	5.9	6.7	56	7.1	7.4	62	7.3
Commercial	656	82.4	73.9	623	78.5	72.1	621	73.2
Commercial	18	2.3	3.7	23	2.9	3.9	37	4.4
Community	55	6.9	16.9	66	8.3	18.1	84	9.9
Community	2	.3	.4	5	.6	.5	11	1.3
Community equity	57	7.2	17.3	71	8.9	18.6	95	11.2
Community	20	2.5	2.7	22	2.8	2.7	29	3.4
Community	32	4.0	1.3	33	4.1	1.3	34	4.0
Community	12	1.5	1.0	21	2.7	1.3	29	3.4
Community	1	.1	.1	1	.1	.1	3	.4
Community	13	1.6	1.1	22	2.8	1.4	32	3.8
Community	140	17.6	26.1	171	21.5	27.9	227	26.8
\$	\$ 796	100.0 %	100.0 %	\$ 794	100.0 %	100.0 %	\$ 848	100.0 %

2012

2011

	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Total Allowance	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans
	\$ 327	36.8 %	44.0 %	\$ 334	33.2 %	39.1 %
	198	22.3	14.6	272	27.1	16.2
	41	4.6	1.9	63	6.3	2.7
	239	26.9	16.5	335	33.4	18.9
	55	6.2	9.3	78	7.8	12.2
	621	69.9	69.8	747	74.4	70.2
	30	3.4	4.1	37	3.7	3.9
	105	11.8	18.6	103	10.2	18.6
	25	2.8	.8	29	2.9	1.1
	130	14.6	19.4	132	13.1	19.7
	38	4.3	2.5	41	4.1	2.4
	26	2.9	1.4			
	39	4.4	2.6	46	4.6	3.5
	4	.5	.2	1	.1	.3
	43	4.9	2.8	47	4.7	3.8
	267	30.1	30.2	257	25.6	29.8
	\$ 888	100.0 %	100.0 %	\$ 1,004	100.0 %	100.0 %

(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of \$28 million at December 31, 2015, \$29 million at December 31, 2014, \$39 million at December 31, 2013, \$55 million at December 31, 2012, and \$104 million at December 31, 2011.

Our provision for credit losses was \$166 million for 2015, compared to \$57 million for 2014. The increase in our provision is due to the growth in our loan portfolio over the past twelve months as well as lower recoveries in 2015 compared to 2014. We continue to reduce our exposure in our higher-risk businesses, including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers, or net loan charge-offs.

Asset quality on our oil and gas loan portfolio, which represents approximately 2% of total loans at December 31, 2015, performed in-line with our expectations in 2015. Nonperforming loans in this sector increased to .54% of our total oil and gas loan portfolio at December 31, 2015, up from .09% at December 31, 2014. In 2015, net loan charge-offs in this sector were .81% of our total oil and gas loan portfolio as a result of commodity price declines that began in 2014. Our reserve for credit losses allocated to our oil and gas loan exposure was 6% of the total oil and gas loan portfolio at December 31, 2015, and reflected the estimated impact of current oil prices at that date.

Table of Contents**Net loan charge-offs**

Net loan charge-offs for 2015 totaled \$142 million, or .24% of average loans, compared to net loan charge-offs of \$113 million, or .20%, for the same period last year. Figure 39 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 40.

Over the past 12 months, net loan charge-offs increased \$29 million. This increase is attributable to the growth in our loan portfolio and lower levels of recoveries over the same period. As shown in Figure 42, our exit loan portfolio contributed a total of \$10 million in net loan charge-offs for 2015, compared to \$13 million in net loan charge-offs for 2014. The decrease in net loan charge-offs in our exit loan portfolio was primarily driven by lower levels of net loan charge-offs in our consumer and commercial exit loan portfolios.

Figure 39. Net Loan Charge-offs from Continuing Operations ^(a)

Year ended December 31, <i>dollars in millions</i>	2015	2014	2013	2012	2011
Commercial, financial and agricultural	\$ 61	\$ 12	\$ 23	\$ 17	\$ 119
Real estate commercial mortgage	(2)	2	(7)	79	103
Real estate construction		(12)	(11)	19	56
Commercial lease financing	4		12	5	17
Total commercial loans	63	2	17	120	295
Home equity Key Community Bank	19	28	52	88	89
Home equity Other	2	4	14	30	41
Credit cards	28	33	27	11	
Marine	9	14	14	37	48
Other	21	32	44	59	68
Total consumer loans	79	111	151	225	246
Total net loan charge-offs	\$ 142	\$ 113	\$ 168	\$ 345	\$ 541
Net loan charge-offs to average loans	.24 %	.20 %	.32 %	.69 %	1.11 %
Net loan charge-offs from discontinued operations education lending business	\$ 22	\$ 31	\$ 37	\$ 58	\$ 123

(a) Credit amounts indicate that recoveries exceeded charge-offs.

Table of Contents**Figure 40. Summary of Loan and Lease Loss Experience from Continuing Operations****Year ended December 31,**

<i>dollars in millions</i>	2015	2014	2013	2012	2011
Average loans outstanding	\$ 58,594	\$ 55,679	\$ 53,054	\$ 50,362	\$ 48,606
Allowance for loan and lease losses at beginning of period	\$ 794	\$ 848	\$ 888	\$ 1,004	\$ 1,604
Loans charged off:					
Commercial, financial and agricultural ^(a)	77	45	62	80	169
Real estate commercial mortgage	4	6	20	102	113
Real estate construction	1	5	3	24	83
Total commercial real estate loans ^(b)	5	11	23	126	196
Commercial lease financing	11	10	27	27	42
Total commercial loans	93	66	112	233	407
Real estate residential mortgage	6	10	20	27	29
Home equity:					
Key Community Bank	26	37	62	99	100
Other	6	9	20	35	45
Total home equity loans	32	46	82	134	145
Consumer other Key Community Bank	24	30	31	38	45
Credit cards	30	34	30	11	
Consumer other:					
Marine	17	23	29	59	80
Other	1	2	4	6	9
Total consumer other	18	25	33	65	89
Total consumer loans	110	145	196	275	308
Total loans charged off	203	211	308	508	715
Recoveries:					
Commercial, financial and agricultural ^(a)	16	33	39	63	50
Real estate commercial mortgage	6	4	27	23	10
Real estate construction	1	17	14	5	27
Total commercial real estate loans ^(b)	7	21	41	28	37
Commercial lease financing	7	10	15	22	25
Total commercial loans	30	64	95	113	112

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Real estate residential mortgage	3	2	2	3	3
Home equity:					
Key Community Bank	7	9	10	11	11
Other	4	5	6	5	4
Total home equity loans	11	14	16	16	15
Consumer other Key Community Bank	6	6	7	6	8
Credit cards	2	1	3		
Consumer other:					
Marine	8	9	15	22	32
Other	1	2	2	3	4
Total consumer other	9	11	17	25	36
Total consumer loans	31	34	45	50	62
Total recoveries	61	98	140	163	174
Net loans charged off	(142)	(113)	(168)	(345)	(541)
Provision (credit) for loan and lease losses	145	59	130	229	(60)
Foreign currency translation adjustment	(1)		(2)		1
Allowance for loan and lease losses at end of year	\$ 796	\$ 794	\$ 848	\$ 888	\$ 1,004
Liability for credit losses on lending-related commitments at beginning of the year	\$ 35	\$ 37	\$ 29	\$ 45	\$ 73
Provision (credit) for losses on lending-related commitments	21	(2)	8	(16)	(28)
Liability for credit losses on lending-related commitments at end of the year ^(c)	\$ 56	\$ 35	\$ 37	\$ 29	\$ 45
Total allowance for credit losses at end of the year	\$ 852	\$ 829	\$ 885	\$ 917	\$ 1,049
Net loan charge-offs to average total loans	.24 %	.20 %	.32 %	.69 %	1.11 %
Allowance for loan and lease losses to period-end loans	1.33	1.38	1.56	1.68	2.03
Allowance for credit losses to period-end loans	1.42	1.44	1.63	1.74	2.12
Allowance for loan and lease losses to nonperforming loans	205.7	190.0	166.9	131.8	138.1
Allowance for credit losses to nonperforming loans	220.2	198.3	174.2	136.1	144.3
Discontinued operations education lending business:					
Loans charged off	\$ 35	\$ 45	\$ 55	\$ 75	\$ 138
Recoveries	13	14	18	17	15

Net loan charge-offs	\$ (22)	\$ (31)	\$ (37)	\$ (58)	\$ (123)
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(a) See Figure 16 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial, financial and agricultural loan portfolio.

(b) See Figure 17 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial real estate loan portfolio.

(c) Included in accrued expense and other liabilities on the balance sheet.

Nonperforming assets

Figure 41 shows the composition of our nonperforming assets. These assets totaled \$403 million at December 31, 2015, and represented .67% of portfolio loans, OREO and other nonperforming assets, compared to \$436 million, or .76%, at December 31, 2014. See Note 1 under the headings Nonperforming Loans, Impaired Loans, and Allowance for Loan and Lease Losses for a summary of our nonaccrual and charge-off policies.

Figure 41. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

December 31, <i>dollars in millions</i>	2015	2014	2013	2012	2011
Commercial, financial and agricultural (a)	\$ 82	\$ 59	\$ 77	\$ 99	\$ 188
Real estate commercial mortgage	19	34	37	120	218
Real estate construction	9	13	14	56	54
Total commercial real estate loans (b)	28	47	51	176	272
Commercial lease financing	13	18	19	16	27
Total commercial loans	123	124	147	291	487
Real estate residential mortgage	64	79	107	103	87
Home equity:					
Key Community Bank	182	185	205	210	108
Other	8	10	15	21	12
Total home equity loans	190	195	220	231	120
Consumer other Key Community Bank	2	2	3	2	1
Credit cards	2	2	4	11	
Consumer other:					
Marine	6	15	26	34	31
Other		1	1	2	1
Total consumer other	6	16	27	36	32
Total consumer loans	264	294	361	383	240
Total nonperforming loans (c)	387	418	508	674	727

Nonperforming loans held for sale			1	25	46
OREO	14	18	15	22	65
Other nonperforming assets	2		7	14	21
Total nonperforming assets	\$ 403	\$ 436	\$ 531	\$ 735	\$ 859
Accruing loans past due 90 days or more	\$ 72	\$ 96	\$ 71	\$ 78	\$ 164
Accruing loans past due 30 through 89 days	208	235	318	424	441
Restructured loans accruing and nonaccruing ^(d)	280	270	338	320	276
Restructured loans included in nonperforming loans ^(d)	159	157	214	249	191
Nonperforming assets from discontinued operations education lending business	7	11	25	20	23
Nonperforming loans to year-end portfolio loans	.65 %	.73 %	.93 %	1.28 %	1.47 %
Nonperforming assets to year-end portfolio loans plus OREO and other nonperforming assets	.67	.76	.97	1.39	1.73

- (a) See Figure 16 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial, financial and agricultural loan portfolio.
- (b) See Figure 17 and the accompanying discussion in the Loans and loans held for sale section for more information related to our commercial real estate loan portfolio.
- (c) Loan balances exclude \$11 million, \$13 million, \$16 million, and \$23 million of PCI loans at December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.
- (d) Restructured loans (i.e., TDRs) are those for which Key, for reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. These concessions are made to improve the collectability of the loan and generally take the form of a reduction of the interest rate, extension of the maturity date or reduction in the principal balance.

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As shown in Figure 41, nonperforming assets decreased during 2015, having declined for the past five years. Most of the reduction came from nonperforming loans in our consumer loan portfolio. As shown in Figure 42, our exit loan portfolio accounted for \$23 million, or 6%, of total nonperforming assets at December 31, 2015, compared to \$41 million, or 9%, at December 31, 2014.

At December 31, 2015, the approximate carrying amount of our commercial nonperforming loans outstanding represented 66% of their original contractual amount, total nonperforming loans outstanding represented 79% of their contractual amount, and total nonperforming assets represented 79% of their original contractual amount. At the same date, OREO represented 72% of its original contractual amount.

At December 31, 2015, our 20 largest nonperforming loans totaled \$97 million, representing 25% of total loans on nonperforming status from continuing operations, compared to \$88 million, representing 21% in the prior year.

Figure 42 shows the composition of our exit loan portfolio at December 31, 2015, and 2014, the net loan charge-offs recorded on this portfolio, and the nonperforming status of those loans at these dates. The exit loan portfolio represented 3% of total loans and loans held for sale at December 31, 2015, compared to 4% at December 31, 2014. Additional information about loan sales is included in the *Loans and loans held for sale* section under *Loan sales*.

Figure 42. Exit Loan Portfolio from Continuing Operations

<i>in millions</i>	Balance Outstanding		Change 12-31-15 vs. 12-31-14		Net Loan Charge-offs		Balance on Nonperforming Status	
	12-31-15	12-31-14	12-31-14	12-31-15^(b)	12-31-14^(b)	12-31-15	12-31-14	
Residential properties homebuilder	\$ 6	\$ 10	\$ (4)	\$ 1	\$ 8	\$ 9		
Marine and RV floor plan	1	7	(6)			5		
Commercial lease financing ^(a)	765	967	(202)	(2)	\$ (5)	1	1	
Total commercial loans	772	984	(212)	(1)	(5)	9	15	
Home equity Other	208	267	(59)	2	4	8	10	
Marine	583	779	(196)	9	14	6	15	
RV and other consumer	41	54	(13)				1	
Total consumer loans	832	1,100	(268)	11	18	14	26	
Total exit loans in loan portfolio	\$ 1,604	\$ 2,084	\$ (480)	\$ 10	\$ 13	\$ 23	\$ 41	
	\$ 1,828	\$ 2,295	\$ (467)	\$ 22	\$ 31	\$ 7	\$ 11	

Discontinued
operations
education lending
business (not
included in exit
loans above)

(a) Includes (1) the business aviation, commercial vehicle, office products, construction and industrial leases; (2) Canadian lease financing portfolios; (3) European lease financing portfolios; and (4) all remaining balances related to lease in, lease out; sale in, lease out; service contract leases; and qualified technological equipment leases.

(b) Credit amounts indicate recoveries exceeded charge-offs.

Figure 43 shows the types of activity that caused the change in our nonperforming loans during each of the last four quarters and the years ended December 31, 2015, and December 31, 2014.

Figure 43. Summary of Changes in Nonperforming Loans from Continuing Operations

<i>in millions</i>	2015 Quarters					
	2015	Fourth	Third	Second	First	2014
Balance at beginning of period	\$ 418	\$ 400	\$ 419	\$ 437	\$ 418	\$ 508
Loans placed on nonaccrual status	377	81	81	92	123	389
Charge-offs	(203)	(51)	(53)	(52)	(47)	(211)
Loans sold	(2)		(2)			(26)
Payments	(71)	(21)	(16)	(25)	(9)	(68)
Transfers to OREO	(20)	(4)	(4)	(5)	(7)	(20)
Transfers to other nonperforming assets	(1)	(1)				
Loans returned to accrual status	(111)	(17)	(25)	(28)	(41)	(154)
Balance at end of period (a)	\$ 387	\$ 387	\$ 400	\$ 419	\$ 437	\$ 418

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(a) Loan balances exclude \$11 million and \$13 million of PCI loans at December 31, 2015, and December 31, 2014, respectively.

Figure 44 shows the factors that contributed to the change in our OREO during 2015 and 2014.

Figure 44. Summary of Changes in Other Real Estate Owned, Net of Allowance, from Continuing Operations

<i>in millions</i>	2015 Quarters						2014
	2015	Fourth	Third	Second	First		
Balance at beginning of period	\$ 18	\$ 17	\$ 20	\$ 20	\$ 18	\$ 15	
Properties acquired nonperforming loans	20	4	4	5	7	20	
Valuation adjustments	(6)	(2)	(2)	(1)	(1)	(5)	
Properties sold	(18)	(5)	(5)	(4)	(4)	(12)	
Balance at end of period	\$ 14	\$ 14	\$ 17	\$ 20	\$ 20	\$ 18	

Operational and compliance risk management

Like all businesses, we are subject to operational risk, which is the risk of loss resulting from human error or malfeasance, inadequate or failed internal processes and systems, and external events. These events include, among other things, threats to our cybersecurity, as we are reliant upon information systems and the Internet to conduct our business activities.

Operational risk also encompasses compliance risk, which is the risk of loss from violations of, or noncompliance with, laws, rules and regulations, prescribed practices, and ethical standards. Under the Dodd-Frank Act, large financial companies like Key are subject to heightened prudential standards and regulation. This heightened level of regulation has increased our operational risk. We have created work teams to respond to and analyze the regulatory requirements that have been or will be promulgated as a result of the enactment of the Dodd-Frank Act. Resulting operational risk losses and/or additional regulatory compliance costs could take the form of explicit charges, increased operational costs, harm to our reputation, or foregone opportunities.

We seek to mitigate operational risk through identification and measurement of risk, alignment of business strategies with risk appetite and tolerance, and a system of internal controls and reporting. We continuously strive to strengthen our system of internal controls to improve the oversight of our operational risk and to ensure compliance with laws, rules, and regulations. For example, an operational event database tracks the amounts and sources of operational risk and losses. This tracking mechanism helps to identify weaknesses and to highlight the need to take corrective action. We also rely upon software programs designed to assist in assessing operational risk and monitoring our control processes. This technology has enhanced the reporting of the effectiveness of our controls to senior management and the Board.

The Operational Risk Management Program provides the framework for the structure, governance, roles, and responsibilities, as well as the content, to manage operational risk for Key. The Compliance Risk Committee serves the same function in managing compliance risk for Key. Primary responsibility for managing and monitoring internal control mechanisms lies with the managers of our various lines of business. The Operational Risk Committee and Compliance Risk Committee are senior management committees that oversee our level of operational and compliance risk and direct and support our operational and compliance infrastructure and related activities. These committees and

the Operational Risk Management and Compliance functions are an integral part of our ERM Program. Our Risk Review function regularly assesses the overall effectiveness of our Operational Risk Management and Compliance Programs and our system of internal controls. Risk Review reports the results of reviews on internal controls and systems to senior management and the Risk and Audit Committees and independently supports the Risk Committee's oversight of these controls.

Table of Contents**Cybersecurity**

We maintain comprehensive Cyber Incident Response Plans, and we devote significant time and resources to maintaining and regularly updating our technology systems and processes to protect the security of our computer systems, software, networks, and other technology assets against attempts by third parties to obtain unauthorized access to confidential information, destroy data, disrupt or degrade service, sabotage systems, or cause other damage. We and many other U.S. financial institutions have experienced distributed denial-of-service attacks from technologically sophisticated third parties. These attacks are intended to disrupt or disable consumer online banking services and prevent banking transactions. We also periodically experience other attempts to breach the security of our systems and data. These cyberattacks have not, to date, resulted in any material disruption of our operations or material harm to our customers, and have not had a material adverse effect on our results of operations.

Cyberattack risks may also occur with our third-party technology service providers, and may interfere with their ability to fulfill their contractual obligations to us, with attendant potential for financial loss or liability that could adversely affect our financial condition or results of operations. Recent high-profile cyberattacks have targeted retailers and other businesses for the purpose of acquiring the confidential information (including personal, financial, and credit card information) of customers, some of whom are customers of ours. We may incur expenses related to the investigation of such attacks or related to the protection of our customers from identity theft as a result of such attacks. Risks and exposures related to cyberattacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking, and other technology-based products and services by us and our clients.

Fourth Quarter Results

Figure 45 shows our financial performance for each of the past eight quarters. Highlights of our results for the fourth quarter of 2015 are summarized below.

Earnings

Our fourth quarter net income from continuing operations attributable to Key common shareholders was \$224 million, or \$.27 per common share, compared to \$246 million, or \$.28 per common share, for the fourth quarter of 2014.

On an annualized basis, our return on average total assets from continuing operations for the fourth quarter of 2015 was .97%, compared to 1.12% for the fourth quarter of 2014. The annualized return on average common equity from continuing operations was 8.51% for the fourth quarter of 2015, compared to 9.50% for the year-ago quarter.

Net interest income

Our taxable-equivalent net interest income was \$610 million for the fourth quarter of 2015, and the net interest margin was 2.87%. These results compare to taxable-equivalent net interest income of \$588 million and a net interest margin of 2.94% for the fourth quarter of 2014. The \$22 million increase in net interest margin reflects higher earning asset balances, partially offset by lower earning asset yields, which also drove the decline in net interest margin.

Noninterest income

Our noninterest income was \$485 million for the fourth quarter of 2015, compared to \$490 million for the year-ago quarter. The slight decrease from the prior year was predominantly attributable to a decline in net gains from

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principal investing of \$18 million and \$7 million of lower trust and investment services income reflecting market variability. These decreases were partially offset by a \$12 million increase in other income and growth in some of our other core fee-based businesses, including \$4 million of higher cards and payments income due to higher credit card and merchant fees due to increased volume and a \$4 million increase in mortgage servicing fees.

Noninterest expense

Our noninterest expense was \$736 million for the fourth quarter of 2015. During the quarter, we incurred merger-related costs of \$6 million, a pension settlement charge of \$4 million, and costs associated with continuous improvement and efficiency efforts of \$10 million. These costs impacted both personnel and nonpersonnel expense.

Compared to \$704 million for the fourth quarter of last year, the increase in noninterest expense was primarily attributable to a \$20 million increase in personnel expense related to investments made across the business, along with an increase in employee benefits expense. Nonpersonnel expense increased \$12 million, most notably from higher business services and professional fees, partially due to merger-related costs.

Provision for credit losses

Our provision for credit losses was \$45 million for the fourth quarter of 2015, compared to \$22 million for the fourth quarter of 2014. Our ALLL was \$796 million, or 1.33% of total period-end loans, at December 31, 2015, compared to \$794 million, or 1.38%, at December 31, 2014.

Net loan charge-offs for the fourth quarter of 2015 totaled \$37 million, or .25% of average loans, compared to \$32 million, or .22%, for the same period last year.

Income taxes

For the fourth quarter of 2015, we recorded a tax provision from continuing operations of \$73 million, compared to a tax provision of \$94 million for the fourth quarter of 2014. The effective tax rate for the fourth quarter of 2015 was 23.9%, compared to 27.2% for the same quarter one year ago, due to additional federal tax credit refunds filed for prior years.

Table of Contents**Figure 45. Selected Quarterly Financial Data**

	2015 Quarters				2014 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
<i>Dollars in millions, except per share amounts</i>								
FOR THE PERIOD								
Interest income	\$ 673	\$ 661	\$ 652	\$ 636	\$ 646	\$ 639	\$ 639	\$ 630
Interest expense	71	70	68	65	64	64	66	67
Net interest income	602	591	584	571	582	575	573	563
Provision for credit losses	45	45	41	35	22	19	12	4
Noninterest income	485	470	488	437	490	417	455	435
Noninterest expense	736	724	711	669	704	706	687	664
Income (loss) from continuing operations before income taxes	306	292	320	304	346	267	329	330
Income (loss) from continuing operations attributable to Key	230	222	235	228	251	203	247	238
Income (loss) from discontinued operations, net of taxes ^(a)	(4)	(3)	3	5	2	(17)	(28)	4
Net income (loss) attributable to Key	226	219	238	233	253	186	219	242
Income (loss) from continuing operations attributable to Key common shareholders	224	216	230	222	246	197	242	232
Income (loss) from discontinued operations, net of taxes ^(a)	(4)	(3)	3	5	2	(17)	(28)	4
Net income (loss) attributable to Key common shareholders	220	213	233	227	248	180	214	236
PER COMMON SHARE								
	\$.27	\$.26	\$.27	\$.26	\$.29	\$.23	\$.28	\$.26

Income (loss) from continuing operations attributable to Key common shareholders										
Income (loss) from discontinued operations, net of taxes ^(a)	(.01)			.01			(.02)	(.03)		
Net income (loss) attributable to Key common shareholders ^(b)	.27	.26	.28	.27	.29	.21	.24	.27		
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	\$.27	\$.26	\$.27	\$.26	\$.28	\$.23	\$.27	\$.26		
Income (loss) from discontinued operations, net of taxes assuming dilution ^(a)	(.01)			.01			(.02)	(.03)		
Net income (loss) attributable to Key common shareholders assuming dilution ^(b)	.26	.25	.27	.26	.28	.21	.24	.26		
Cash dividends paid	.075	.075	.075	.065	.065	.065	.065	.055		
Book value at period end	12.51	12.47	12.21	12.12	11.91	11.74	11.65	11.43		
Tangible book value at period end	11.22	11.17	10.92	10.84	10.65	10.47	10.50	10.28		
Market price:										
High	14.01	15.46	15.70	14.74	14.18	14.62	14.59	14.70		
Low	12.37	12.65	13.90	12.04	11.55	12.97	12.90	12.25		
Close	13.19	13.01	15.02	14.16	13.90	13.33	14.33	14.24		
Weighted-average common shares outstanding (000)	828,206	831,430	839,454	848,580	858,811	867,350	875,298	884,727		
Weighted-average common shares and potential common shares outstanding (000) ^(c)	835,939	838,880	846,312	857,122	886,186	874,122	902,137	891,890		
AT PERIOD END										
Loans	\$ 59,876	\$ 60,085	\$ 58,264	\$ 57,953	\$ 57,381	\$ 56,155	\$ 55,600	\$ 55,445		
Earning assets	83,780	83,779	82,964	82,624	82,269	78,130	78,457	77,692		

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Total assets	95,133	95,422	94,606	94,206	93,821	89,784	91,798	90,802
Deposits	71,046	71,073	70,669	71,622	71,998	68,456	67,799	67,266
Long-term debt	10,186	10,310	10,267	8,713	7,875	7,172	8,213	7,712
Key common shareholders equity	10,456	10,415	10,300	10,313	10,239	10,195	10,213	10,112
Key shareholders equity	10,746	10,705	10,590	10,603	10,530	10,486	10,504	10,403

PERFORMANCE RATIOS FROM CONTINUING OPERATIONS

Return on average total assets	.97%	.95%	1.03%	1.03%	1.12%	.92%	1.14%	1.13	%
Return on average common equity	8.51	8.30	8.96	8.76	9.50	7.68	9.55	9.33	
Return on average tangible common equity ^(d)	9.50	9.27	10.01	9.80	10.64	8.55	10.60	10.38	
Net interest margin (NIM)	2.87	2.87	2.88	2.91	2.94	2.96	2.98	3.00	
Cash efficiency ratio ^(b)	66.4	66.9	65.1	65.1	64.4	69.7	65.6	65.1	

PERFORMANCE RATIOS FROM CONSOLIDATED OPERATIONS

Return on average total assets	.93%	.92%	1.02%	1.03%	1.10%	.81%	.96%	1.09	%
Return on average common equity	8.36	8.19	9.07	8.96	9.58	7.01	8.44	9.50	
Return on average tangible common equity ^(d)	9.33	9.14	10.14	10.02	10.72	7.81	9.37	10.56	
Net interest margin (NIM)	2.84	2.84	2.85	2.88	2.93	2.94	2.94	2.95	
Loan to deposit ^(e)	87.8	89.3	87.3	86.9	84.6	87.4	87.1	87.5	

CAPITAL RATIOS AT PERIOD END

Key shareholders equity to assets	11.30%	11.22%	11.19%	11.26%	11.22%	11.68%	11.44%	11.46	%
Key common shareholders equity to assets	10.99	10.91	10.89	10.95	10.91	11.36	11.13	11.14	
Tangible common equity to tangible assets ^(d)	9.98	9.90	9.86	9.92	9.88	10.26	10.15	10.14	
Common Equity tier ^(d)	10.94	10.47	10.71	10.64	N/A	N/A	N/A	N/A	
Tier 1 common equity ^(d)	N/A	N/A	N/A	N/A	11.17	11.26	11.25	11.27	

Tier 1 risk-based capital	11.35	10.87	11.11	11.04	11.90	12.01	11.99	12.01
Total risk-based capital	12.97	12.47	12.66	12.79	13.89	14.10	14.14	14.23
Leverage	10.72	10.68	10.74	10.91	11.26	11.15	11.24	11.30
TRUST AND BROKERAGE ASSETS								
Assets under management	\$ 33,983	\$ 35,158	\$ 38,399	\$ 39,281	\$ 39,157	\$ 39,283	\$ 39,669	\$ 38,893
Nonmanaged and brokerage assets	47,681	46,796	48,789	49,508	49,147	48,273	48,728	47,396
OTHER DATA								
Average full-time-equivalent employees	13,359	13,555	13,455	13,591	13,590	13,905	13,867	14,055
Branches	966	972	989	992	994	997	1,009	1,027

- (a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund.

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As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

- (b) EPS may not foot due to rounding.
- (c) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.
- (d) See Figure 46 entitled Selected Quarterly GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, Common Equity Tier 1 (compliance date of January 1, 2015, under the Regulatory Capital Rules), Tier 1 common equity (prior to January 1, 2015), and cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.
- (e) Represents period-end consolidated total loans and loans held for sale (excluding education loans in securitizations trusts for periods prior to September 30, 2014) divided by period-end consolidated total deposits (excluding deposits in foreign office).

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Figure 46. Selected Quarterly GAAP to Non-GAAP Reconciliations

	12-31-15	9-30-15	6-30-15	Three months ended		9-30-14	6-30-14
				3-31-15	12-31-14		
ts							
ty	\$ 10,746	\$ 10,705	\$ 10,590	\$ 10,603	\$ 10,530	\$ 10,486	\$ 10,504
(a)	1,080	1,084	1,085	1,088	1,090	1,105	1,008
d	281	281	281	281	282	282	282
n							
	\$ 9,385	\$ 9,340	\$ 9,224	\$ 9,234	\$ 9,158	\$ 9,099	\$ 9,214
	\$ 95,133	\$ 95,422	\$ 94,606	\$ 94,206	\$ 93,821	\$ 89,784	\$ 91,798
(a)	1,080	1,084	1,085	1,088	1,090	1,105	1,008
	\$ 94,053	\$ 94,338	\$ 93,521	\$ 93,118	\$ 92,731	\$ 88,679	\$ 90,790
y							
	9.98 %	9.90 %	9.86 %	9.92 %	9.88%	10.26 %	10.15
1							
ty	\$ 10,746	\$ 10,705	\$ 10,590	\$ 10,603			
d	281	281	281	281			
ts	10,465	10,424	10,309	10,322			
	1,034	1,036	1,034	1,036			
	26	29	33	36			
ts	1	1	1	1			
	(58)	54		52			

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\$ 9,847 \$ 9,668 \$ 9,622 \$ 9,569

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10.94 % 10.47 % 10.71 % 10.64 %

\$ 10,530 \$ 10,486 \$ 10,504

339 340 339

1,057 1,051 979

(395) (366) (328)

83 110 86

10,124 10,031 10,106

339 340 339

282 282 282

\$ 9,503 \$ 9,409 \$ 9,485

\$ 85,100 \$ 83,547 \$ 84,287

11.17 % 11.26 % 11.25

	\$ 10,731	\$ 10,614	\$ 10,590	\$ 10,570	\$ 10,562	\$ 10,473	\$ 10,459
	1,082	1,083	1,086	1,089	1,096	1,037	1,010
	290	290	290	290	291	291	291
	\$ 9,359	\$ 9,241	\$ 9,214	\$ 9,191	\$ 9,175	\$ 9,145	\$ 9,158
	\$ 224	\$ 216	\$ 230	\$ 222	\$ 246	\$ 197	\$ 242
	9,359	9,241	9,214	9,191	9,175	9,145	9,158
	9.50%	9.27 %	10.01 %	9.80 %	10.64 %	8.55 %	10.60
	\$ 220	\$ 213	\$ 233	\$ 227	\$ 248	\$ 180	\$ 214
	9,359	9,241	9,214	9,191	9,175	9,145	9,158
	9.33%	9.14 %	10.14 %	10.02 %	10.72 %	7.81 %	9.37
	\$ 736	\$ 724	\$ 711	\$ 669	\$ 704	\$ 706	\$ 687
	9	9	9	9	10	10	9

	\$ 727	\$ 715	\$ 702	\$ 660	\$ 694	\$ 696	\$ 678
	\$ 602	\$ 591	\$ 584	\$ 571	\$ 582	\$ 575	\$ 573
nt	8	7	7	6	6	6	6
	485	470	488	437	490	417	455
t	\$ 1,095	\$ 1,068	\$ 1,079	\$ 1,014	\$ 1,078	\$ 998	\$ 1,034
	66.4%	66.9 %	65.1 %	65.1 %	64.4 %	69.7 %	65.6

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- (a) For the three months ended December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, intangible assets exclude \$45 million, \$50 million, \$55 million, and \$61 million, respectively, of period-end purchased credit card receivables. For the three months ended December 31, 2014, September 30, 2014, June 30, 2014, and March 31, 2014, intangible assets exclude \$68 million, \$72 million, \$79 million, and \$84 million, respectively, of period-end purchased credit card receivables.
- (b) Net of capital surplus.
- (c) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.
- (d) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at any quarter-end during 2014.
- (e) For the three months ended December 31, 2015, September 30, 2015, June 30, 2015, and March 31, 2015, average intangible assets exclude \$47 million, \$52 million, \$58 million, and \$64 million, respectively, of average purchased credit card receivables. For the three months ended December 31, 2014, September 30, 2014, June 30, 2014, and March 31, 2014, average intangible assets exclude \$69 million, \$76 million, \$82 million, and \$89 million, respectively, of average purchased credit card receivables.

Critical Accounting Policies and Estimates

Our business is dynamic and complex. Consequently, we must exercise judgment in choosing and applying accounting policies and methodologies. These choices are critical; not only are they necessary to comply with GAAP, they also reflect our view of the appropriate way to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 (Summary of Significant Accounting Policies) should be reviewed for a greater understanding of how we record and report our financial performance.

In our opinion, some accounting policies are more likely than others to have a critical effect on our financial results and to expose those results to potentially greater volatility. These policies apply to areas of relatively greater business importance, or require us to exercise judgment and to make assumptions and estimates that affect amounts reported in the financial statements. Because these assumptions and estimates are based on current circumstances, they may prove to be inaccurate, or we may find it necessary to change them.

As described below, we rely heavily on the use of judgment, assumptions and estimates to make a number of core decisions. We have reviewed these critical accounting estimates and related disclosures with the Audit Committee.

Allowance for loan and lease losses

The loan portfolio is the largest category of assets on our balance sheet. We consider a variety of data to determine probable losses incurred in the loan portfolio and to establish an allowance that is sufficient to absorb those losses. For example, we apply expected loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, underwriting standards, and concentrations of

credit. Other considerations include expected cash flows and estimated collateral values.

For all commercial and consumer TDRs, regardless of size, as well as all other impaired commercial loans with an outstanding balances of \$2.5 million or greater, we conduct further analysis to determine the probable loss and assign a specific allowance to the loan if deemed appropriate. For example, a specific allowance may be assigned even when sources of repayment appear sufficient if we remain uncertain that an impaired loan will be repaid in full.

We continually assess the risk profile of the loan portfolio and adjust the ALLL when appropriate. The economic and business climate in any given industry or market is difficult to gauge and can change rapidly, and the effects of those changes can vary by borrower. However, since our total loan portfolio is well diversified in many respects, and the risk profile of certain segments of the loan portfolio may be improving while the risk profile of

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others is deteriorating, we may decide to change the level of the allowance for one segment of the portfolio without changing it for any other segment.

In addition to adjusting the ALLL to reflect market conditions, we also may adjust the allowance because of unique events that are likely to cause actual losses to vary abruptly and significantly from expected losses. For example, class action lawsuits brought against an industry segment (e.g., one that used asbestos in its product) can cause a precipitous deterioration in the risk profile of borrowers doing business in that segment. Conversely, the dismissal of such lawsuits can improve the risk profile. In either case, historical loss rates for that industry segment would not have provided a precise basis for determining the appropriate level of allowance.

Even minor changes in the level of estimated losses can significantly affect management's determination of the appropriate allowance because those changes must be applied across a large portfolio. To illustrate, an increase in estimated losses equal to one-tenth of one percent of our consumer loan portfolio as of December 31, 2015, would indicate the need for a \$16 million increase in the allowance. The same increase in estimated losses for the commercial loan portfolio would result in a \$44 million increase in the allowance. Such adjustments to the ALLL can materially affect financial results. Following the above examples, a \$16 million increase in the consumer loan portfolio allowance would have reduced our earnings on an after-tax basis by approximately \$10 million, or \$.01 per common share; a \$44 million increase in the commercial loan portfolio allowance would have reduced earnings on an after-tax basis by approximately \$28 million, or \$.03 per common share.

As we make decisions regarding the allowance, we benefit from a lengthy organizational history and experience with credit evaluations and related outcomes. Nonetheless, if our underlying assumptions later prove to be inaccurate, the ALLL would likely need to be adjusted, possibly having an adverse effect on our results of operations.

In the third quarter of 2015, we enhanced the approach used to determine the commercial reserve factors used in estimating the commercial ALLL, which had the effect of capturing certain elements in the commercial quantitative reserve component that had formerly been included in the commercial qualitative component. Under the enhanced methodology, we began utilizing more refined commercial estimated loss rates that represent cumulative losses over the estimated average time period from the onset of credit deterioration loss to the initial loss recorded for an individual loan. In addition, we began utilizing an enhanced framework to quantify commercial ALLL adjustments resulting from qualitative factors that may not be fully captured within the statistical analysis of incurred loss. The enhanced framework utilizes the nine qualitative factors recommended within the OCC's *Interagency Policy Statement on the Allowance for Loan and Lease Losses (issued 12/13/2006)* to quantify the commercial qualitative component. The impact of these changes was largely neutral to the total ALLL. However, because the quantitative reserve is allocated to the business segments at a loan level, while the qualitative portion is allocated at the portfolio level, the impact of the methodology enhancements on the allowance for each business segment and each portfolio caused the business segment and commercial portfolio reserves to increase or decrease accordingly. The impact of the increases and decreases on the business segment and commercial portfolio reserves was not significant.

Our accounting policy related to the allowance is disclosed in Note 1 under the heading Allowance for Loan and Lease Losses.

Valuation methodologies

We follow the applicable accounting guidance for fair value measurements and disclosures, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using internally developed models, which are based on third-party data as well as our judgment, assumptions and estimates regarding credit

quality, liquidity, interest rates and other relevant market available inputs. We describe our

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application of this accounting guidance, the process used to determine fair values, and the fair value hierarchy in Note 1 under the heading Fair Value Measurements, and in Note 6 (Fair Value Measurements).

Valuation methodologies often involve significant judgment, particularly when there are no observable active markets for the items being valued. To determine the values of assets and liabilities, as well as the extent to which related assets may be impaired, we make assumptions and estimates related to discount rates, asset returns, prepayment rates and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results. The outcomes of valuations that we perform have a direct bearing on the recorded amounts of assets and liabilities, including loans held for sale, principal investments, goodwill, and pension and other postretirement benefit obligations.

At December 31, 2015, \$15.9 billion, or 17%, of our total assets were measured at fair value on a recurring basis. Substantially all of these assets were classified as Level 1 or Level 2 within the fair value hierarchy. At December 31, 2015, \$1.2 billion, or 1%, of our total liabilities were measured at fair value on a recurring basis. Substantially all of these liabilities were classified as Level 1 or Level 2.

At December 31, 2015, \$7 million, or less than 1%, of our total assets were measured at fair value on a nonrecurring basis. All of these assets were classified as Level 3. At December 31, 2015, there were no liabilities measured at fair value on a nonrecurring basis.

A discussion of the valuation methodology applied to our loans held for sale is included in Note 1 under the heading Loans Held for Sale.

Our principal investments include direct and indirect investments, predominantly in privately-held companies. The fair values of these investments are determined by considering a number of factors, including the target company's financial condition and results of operations, values of public companies in comparable businesses, market liquidity, and the nature and duration of resale restrictions. The fair value of principal investments was \$304 million at December 31, 2015. A 10% positive or negative variance in that fair value would have increased or decreased our 2015 earnings by approximately \$30 million (\$19 million after tax, or \$.02 per common share).

The valuation and testing methodologies used in our analysis of goodwill impairment are summarized in Note 1 under the heading Goodwill and Other Intangible Assets. Accounting guidance permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. We did not choose to utilize this qualitative assessment in our annual goodwill impairment testing in the fourth quarter of 2015. Therefore, the first step in testing for impairment is to determine the fair value of each reporting unit. Our reporting units for purposes of this testing are our two major business segments: Key Community Bank and Key Corporate Bank. Fair values are estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). We believe the estimates and assumptions used in the goodwill impairment analysis for our reporting units are reasonable. However, if actual results and market conditions differ from the assumptions or estimates used, the fair value of each reporting unit could change in the future.

The second step of impairment testing is necessary only if the carrying amount of either reporting unit exceeds its fair value, suggesting goodwill impairment. In such a case, we would estimate a hypothetical purchase price for the reporting unit (representing the unit's fair value) and then compare that hypothetical purchase price with the fair value of the unit's net assets (excluding goodwill). Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. An impairment loss would be recognized as a charge to earnings if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of goodwill.

We continue to monitor the impairment indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets quarterly. The acquisition of Pacific Crest Securities during the third quarter of 2014 resulted in a \$78 million increase in the goodwill recorded in the Key Corporate Bank unit. Approximately \$72 million of the goodwill was allocated to KBCM in the second quarter of 2015,

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when Pacific Crest Securities was fully merged into KBCM. During the third quarter of 2015, goodwill increased \$3 million to account for a tax item associated with the business combination. Additional information is provided in Note 10 (Goodwill and Other Intangible Assets).

The primary assumptions used in determining our pension and other postretirement benefit obligations and related expenses, including sensitivity analysis of these assumptions, are presented in Note 16 (Employee Benefits).

When potential asset impairment is identified, we must exercise judgment to determine the nature of the potential impairment (i.e., temporary or other-than-temporary) to apply the appropriate accounting treatment. For example, unrealized losses on securities available for sale that are deemed temporary are recorded in shareholders' equity; those deemed other-than-temporary are recorded in either earnings or shareholders' equity based on certain factors. Additional information regarding temporary and other-than-temporary impairment on securities available for sale at December 31, 2015, is provided in Note 7 (Securities).

Derivatives and hedging

We primarily use interest rate swaps to hedge interest rate risk for asset and liability management purposes. These derivative instruments modify the interest rate characteristics of specified on-balance sheet assets and liabilities. Our accounting policies related to derivatives reflect the current accounting guidance, which provides that all derivatives should be recognized as either assets or liabilities on the balance sheet at fair value, after taking into account the effects of master netting agreements. Accounting for changes in the fair value (i.e., gains or losses) of a particular derivative depends on whether the derivative has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship.

The application of hedge accounting requires significant judgment to interpret the relevant accounting guidance, as well as to assess hedge effectiveness, identify similar hedged item groupings, and measure changes in the fair value of the hedged items. We believe our methods of addressing these judgments and applying the accounting guidance are consistent with both the guidance and industry practices. However, interpretations of the applicable accounting guidance continue to change and evolve. In the future, these evolving interpretations could result in material changes to our accounting for derivative financial instruments and related hedging activities. Although such changes may not have a material effect on our financial condition, a change could have a material adverse effect on our results of operations in the period in which it occurs. Additional information relating to our use of derivatives is included in Note 1 under the heading Derivatives, and Note 8 (Derivatives and Hedging Activities).

Contingent liabilities, guarantees and income taxes

Note 20 (Commitments, Contingent Liabilities and Guarantees) summarizes contingent liabilities arising from litigation and contingent liabilities arising from guarantees in various agreements with third parties under which we are a guarantor, and the potential effects of these items on the results of our operations. We record a liability for the fair value of the obligation to stand ready to perform over the term of a guarantee, but there is a risk that our actual future payments in the event of a default by the guaranteed party could exceed the recorded amount. See Note 20 for a comparison of the liability recorded and the maximum potential undiscounted future payments for the various types of guarantees that we had outstanding at December 31, 2015.

It is not always clear how the Internal Revenue Code and various state tax laws apply to transactions that we undertake. In the normal course of business, we may record tax benefits and then have those benefits contested by the IRS or state tax authorities. We have provided tax reserves that we believe are adequate to absorb potential adjustments that such challenges may necessitate. However, if our judgment later proves to be inaccurate, the tax

reserves may need to be adjusted, which could have an adverse effect on our results of operations and capital.

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Additionally, we conduct quarterly assessments that determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded. The available evidence used in connection with these assessments includes taxable income in prior periods, projected future taxable income, potential tax-planning strategies, and projected future reversals of deferred tax items. These assessments are subjective and may change. Based on these criteria, and in particular our projections for future taxable income, we currently believe it is more-likely-than-not that we will realize our net deferred tax asset in future periods. However, if our assessments prove incorrect, they could have a material adverse effect on our results of operations in the period in which they occur. For further information on our accounting for income taxes, see Note 12 (Income Taxes).

During 2015, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates except for the ALLL enhanced methodology discussed above.

Table of Contents**European Sovereign and Non-Sovereign Debt Exposures**

Our total European sovereign and non-sovereign debt exposure is presented in Figure 47.

Figure 47. European Sovereign and Non-Sovereign Debt Exposures

December 31, 2015	Short- and Long- Term Commercial Total ^(a)	Foreign Exchange and Derivatives with Collateral ^(b)	Net Exposure
<i>in millions</i>			
France:			
Sovereigns			
Non-sovereign financial institutions		\$ 1	\$ 1
Non-sovereign non-financial institutions	\$ 17		17
Total	17	1	18
Germany:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	187		187
Total	187		187
Greece:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Iceland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Ireland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	1		1
Total	1		1
Italy:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	34		34
Total	34		34
Netherlands:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	12		12
Total	12		12

Portugal:

Sovereigns

Non-sovereign financial institutions

Non-sovereign non-financial institutions

Total

Spain:

Sovereigns

Non-sovereign financial institutions

Non-sovereign non-financial institutions

Total

20

20

20

20

Switzerland:

Sovereigns

Non-sovereign financial institutions

Non-sovereign non-financial institutions

Total

(2)

(2)

63

63

63

(2)

61

United Kingdom:

Sovereigns

Non-sovereign financial institutions

Non-sovereign non-financial institutions

Total

58

58

83

83

83

58

141

Other Europe: ^(c)

Sovereigns

Non-sovereign financial institutions

Non-sovereign non-financial institutions

Total

70

70

70

70

Total Europe:

Sovereigns

Non-sovereign financial institutions

Non-sovereign non-financial institutions

Total

57

57

487

487

\$ 487

\$

57

\$

544

(a) Represents our outstanding leases.

(b) Represents contracts to hedge our balance sheet asset and liability needs, and to accommodate our clients' trading and/or hedging needs. Our derivative mark-to-market exposures are calculated and reported on a daily basis. These exposures are largely covered by cash or highly marketable securities collateral with daily collateral calls.

(c) Other Europe consists of the following countries: Austria, Belarus, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, Hungary, Lithuania, Luxembourg, Malta, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Sweden, and Ukraine. 100% of our exposure in Other Europe is in Belgium, Finland, and Sweden.

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Our credit risk exposure is largely concentrated in developed countries with emerging market exposure essentially limited to commercial facilities; these exposures are actively monitored by management. We do not have at-risk exposures in the rest of the world.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information included under the caption Risk Management Market risk management in the MD&A beginning on page 79 is incorporated herein by reference.

Table of Contents**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our financial performance for each of the past eight quarters is summarized in Figure 45 contained in the Fourth Quarter Results section in the MD&A.

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Management's Annual Report on Internal Control over Financial Reporting

We are responsible for the preparation, content and integrity of the financial statements and other statistical data and analyses compiled for this annual report. The financial statements and related notes have been prepared in conformity with U.S. generally accepted accounting principles and reflect our best estimates and judgments. We believe the financial statements and notes present fairly our financial position, results of operations and cash flows in all material respects.

We are responsible for establishing and maintaining a system of internal control that is designed to protect our assets and the integrity of our financial reporting. This corporate-wide system of controls includes self-monitoring mechanisms and written policies and procedures, prescribes proper delegation of authority and division of responsibility, and facilitates the selection and training of qualified personnel.

All employees are required to comply with our code of ethics. We conduct an annual certification process to ensure that our employees meet this obligation. Although any system of internal control can be compromised by human error or intentional circumvention of required procedures, we believe our system provides reasonable assurance that financial transactions are recorded and reported properly, providing an adequate basis for reliable financial statements.

The Board of Directors discharges its responsibility for our financial statements through its Audit Committee. This committee, which draws its members exclusively from the non-management directors, also hires the independent registered public accounting firm.

Management's Assessment of Internal Control over Financial Reporting

We are responsible for establishing and maintaining adequate internal control over our financial reporting. We have assessed the effectiveness of our internal control and procedures over financial reporting using criteria described in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that assessment, we believe we maintained an effective system of internal control over financial reporting as of December 31, 2015. Our independent registered public accounting firm has issued an attestation report, dated February 24, 2016, on our internal control over financial reporting, which is included in this annual report.

Beth E. Mooney

Chairman, Chief Executive Officer and President

Donald R. Kimble

Chief Financial Officer

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**Report of Ernst & Young LLP, Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting**

The Board of Directors and Shareholders of KeyCorp

We have audited KeyCorp's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). KeyCorp's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on KeyCorp's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, KeyCorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of KeyCorp as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 24, 2016 expressed an unqualified opinion thereon.

Cleveland, Ohio

February 24, 2016

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

The Board of Directors and Shareholders of KeyCorp

We have audited the accompanying consolidated balance sheets of KeyCorp as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of KeyCorp's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KeyCorp at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), KeyCorp's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 24, 2016 expressed an unqualified opinion thereon.

Cleveland, Ohio

February 24, 2016

Table of Contents**Consolidated Balance Sheets****December 31,***in millions, except per share data*

	2015	2014
ASSETS		
Cash and due from banks	\$ 607	\$ 653
Short-term investments	2,707	4,269
Trading account assets	788	750
Securities available for sale	14,218	13,360
Held-to-maturity securities (fair value: \$4,848 and \$4,974)	4,897	5,015
Other investments	655	760
Loans, net of unearned income of \$646 and \$682	59,876	57,381
Less: Allowance for loan and lease losses	796	794
Net loans	59,080	56,587
Loans held for sale	639	734
Premises and equipment	779	841
Operating lease assets	340	330
Goodwill	1,060	1,057
Other intangible assets	65	101
Corporate-owned life insurance	3,541	3,479
Derivative assets	619	609
Accrued income and other assets	3,292	2,952
Discontinued assets (including \$4 and \$191 of portfolio loans at fair value, see Note 13)	1,846	2,324
Total assets	\$ 95,133	\$ 93,821
LIABILITIES		
Deposits in domestic offices:		
NOW and money market deposit accounts	\$ 37,089	\$ 34,536
Savings deposits	2,341	2,371
Certificates of deposit (\$100,000 or more)	2,392	2,040
Other time deposits	3,127	3,259
Total interest-bearing deposits	44,949	42,206
Noninterest-bearing deposits	26,097	29,228
Deposits in foreign office interest-bearing		564
Total deposits	71,046	71,998
Federal funds purchased and securities sold under repurchase agreements	372	575
Bank notes and other short-term borrowings	533	423
Derivative liabilities	632	784
Accrued expense and other liabilities	1,605	1,621
Long-term debt	10,186	7,875

Discontinued liabilities			3
Total liabilities	84,374		83,279
EQUITY			
Preferred stock, \$1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, \$100 liquidation preference; authorized 7,475,000 shares; issued 2,900,234 and 2,904,839 shares			
	290		291
Common shares, \$1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905 and 1,016,969,905 shares			
	1,017		1,017
Capital surplus	3,922		3,986
Retained earnings	8,922		8,273
Treasury stock, at cost (181,218,648 and 157,566,493 shares)	(3,000)		(2,681)
Accumulated other comprehensive income (loss)	(405)		(356)
Key shareholders equity	10,746		10,530
Noncontrolling interests	13		12
Total equity	10,759		10,542
Total liabilities and equity	\$ 95,133	\$	93,821

See Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Income****Year ended December 31,***dollars in millions, except per share amounts*

	2015	2014	2013
INTEREST INCOME			
Loans	\$ 2,149	\$ 2,110	\$ 2,151
Loans held for sale	37	21	20
Securities available for sale	293	277	311
Held-to-maturity securities	96	93	82
Trading account assets	21	25	21
Short-term investments	8	6	6
Other investments	18	22	29
Total interest income	2,622	2,554	2,620
INTEREST EXPENSE			
Deposits	105	117	158
Federal funds purchased and securities sold under repurchase agreements		2	2
Bank notes and other short-term borrowings	9	9	8
Long-term debt	160	133	127
Total interest expense	274	261	295
NET INTEREST INCOME	2,348	2,293	2,325
Provision for credit losses	166	57	138
Net interest income after provision for credit losses	2,182	2,236	2,187
NONINTEREST INCOME			
Trust and investment services income	433	403	393
Investment banking and debt placement fees	445	397	333
Service charges on deposit accounts	256	261	281
Operating lease income and other leasing gains	73	96	117
Corporate services income	198	178	172
Cards and payments income	183	166	162
Corporate-owned life insurance income	127	118	120
Consumer mortgage income	12	10	19
Mortgage servicing fees	48	46	58
Net gains (losses) from principal investing	51	78	52
Other income ^(a)	54	44	59
Total noninterest income	1,880	1,797	1,766
NONINTEREST EXPENSE			
Personnel	1,652	1,591	1,609

Net occupancy	255	261	275
Computer processing	164	158	156
Business services and professional fees	159	156	151
Equipment	88	96	104
Operating lease expense	47	42	47
Marketing	57	49	51
FDIC assessment	32	30	30
Intangible asset amortization	36	39	44
OREO expense, net	6	5	7
Other expense	344	334	338
Total noninterest expense	2,840	2,761	2,812
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES			
	1,222	1,272	1,141
Income taxes	303	326	271
INCOME (LOSS) FROM CONTINUING OPERATIONS	919	946	870
Income (loss) from discontinued operations, net of taxes of \$1, (\$23) and \$26 (see Note 13)	1	(39)	40
NET INCOME (LOSS)	920	907	910
Less: Net income (loss) attributable to noncontrolling interests	4	7	
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	\$ 916	\$ 900	\$ 910
Income (loss) from continuing operations attributable to Key common shareholders	\$ 892	\$ 917	\$ 847
Net income (loss) attributable to Key common shareholders	893	878	887
Per common share:			
Income (loss) from continuing operations attributable to Key common shareholders	\$ 1.06	\$ 1.05	\$.93
Income (loss) from discontinued operations, net of taxes		(.04)	.04
Net income (loss) attributable to Key common shareholders ^(b)	1.06	1.01	.98
Per common share assuming dilution:			
Income (loss) from continuing operations attributable to Key common shareholders	\$ 1.05	\$ 1.04	\$.93
Income (loss) from discontinued operations, net of taxes		(.04)	.04
Net income (loss) attributable to Key common shareholders ^(b)	1.05	.99	.97
Cash dividends declared per common share	\$.29	\$.25	\$.215
Weighted-average common shares outstanding (000)	836,846	871,464	906,524
Effect of convertible preferred stock			
Effect of common share options and other stock awards	7,643	6,735	6,047
Weighted-average common shares and potential common shares outstanding (000) ^(c)	844,489	878,199	912,571

(a) Net securities gains (losses) totaled less than \$1 million for the years ended December 31, 2015, and 2014, and \$1 million for the year ended December 31, 2013. For 2015, 2014 and 2013, we did not have any impairment losses related to securities.

(b) EPS may not foot due to rounding.

(c) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

See Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Comprehensive Income**

Year ended December 31,
in millions

	2015	2014	2013
Net income (loss)	\$ 920	\$ 907	\$ 910
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$32), \$35, and (\$173)	(54)	59	(292)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$17, \$2, and (\$17)	28	3	(29)
Foreign currency translation adjustments, net of income taxes of (\$14), (\$8), and (\$3)	(24)	(20)	(13)
Net pension and postretirement benefit costs, net of income taxes of (\$2), (\$27), and \$63	1	(46)	106
Total other comprehensive income (loss), net of tax	(49)	(4)	(228)
Comprehensive income (loss)	871	903	682
Less: Comprehensive income attributable to noncontrolling interests	4	7	
Comprehensive income (loss) attributable to Key	\$ 867	\$ 896	\$ 682

See Notes to Consolidated Financial Statements.

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Consolidated Statements of Changes in Equity

<i>dollars in millions except per share amounts</i>	Key Shareholders Equity						Accumulated Other Comprehensive Income		Noncontrolling Interests
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	(Loss)	
BALANCE AT DECEMBER 31, 2012	2,905	925,769	\$ 291	\$ 1,017	\$ 4,126	\$ 6,913	\$(1,952)	\$ (124)	\$ 38
Net income (loss)						910			
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$173)								(292)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$17)								(29)	
Foreign currency translation adjustments, net of income taxes of (\$3)								(13)	
Net pension and postretirement benefit costs, net of income taxes of \$63								106	
Cash dividends declared on common shares (\$.215 per share)						(194)			
Cash dividends declared on Noncumulative Series A Preferred Stock (\$7.75 per share)						(23)			
Common shares repurchased		(41,599)					(474)		
Common shares reissued (returned) for stock options and other employee benefit plans		6,554			(104)		145		

Net contribution from
(distribution to)
noncontrolling interests (21)

BALANCE AT

DECEMBER 31, 2013 2,905 890,724 \$ 291 \$ 1,017 \$ 4,022 \$ 7,606 \$ (2,281) \$ (352) \$ 17

Net income (loss) 900 7

Other comprehensive
income (loss):

Net unrealized gains
(losses) on securities
available for sale, net
of income taxes of \$35 59

Net unrealized gains
(losses) on derivative
financial instruments,
net of income taxes of
\$2 3

Foreign currency
translation adjustments,
net of income taxes of
(\$8) (20)

Net pension and
postretirement benefit
costs, net of income
taxes of (\$27) (46)

Deferred compensation 2

Cash dividends
declared on common
shares (\$.25 per share) (218)

Cash dividends
declared on
Noncumulative Series
A Preferred Stock
(\$7.75 per share) (22)

Common shares
repurchased (36,285) (484)

Common shares
reissued (returned) for
stock options and other
employee benefit plans 4,964 (38) 84

LIHTC guaranteed
funds put 7

Net contribution from
(distribution to)
noncontrolling interests (12)

BALANCE AT

DECEMBER 31, 2014 2,905 859,403 \$ 291 \$ 1,017 \$ 3,986 \$ 8,273 \$ (2,681) \$ (356) \$ 12

Net income (loss) 916 4

Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$32)									(54)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$17									28
Foreign currency translation adjustments, net of income taxes of (\$14)									(24)
Net pension and postretirement benefit costs, net of income taxes of (\$2)									1
Deferred compensation					11				
Cash dividends declared on common shares (\$.29 per share)									(244)
Cash dividends declared on Noncumulative Series A Preferred Stock (\$7.75 per share)									(23)
Common shares repurchased		(31,267)							(448)
Series A Preferred Stock exchanged for common shares	(5)	33	(1)						1
Common shares reissued (returned) for stock options and other employee benefit plans		7,582				(75)			128
Net contribution from (distribution to) noncontrolling interests									(3)
BALANCE AT									
DECEMBER 31, 2015	2,900	835,751	\$ 290	\$ 1,017	\$ 3,922	\$ 8,922	\$ (3,000)	\$ (405)	\$ 13

See Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Cash Flows****Year ended December 31,***in millions*

	2015	2014	2013
OPERATING ACTIVITIES			
Net income (loss)	\$ 920	\$ 907	\$ 910
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for credit losses	166	57	138
Provision (credit) for losses on LIHTC guaranteed funds		(7)	4
Depreciation, amortization and accretion expense, net	247	246	221
Increase in cash surrender value of corporate-owned life insurance	(108)	(106)	(106)
Stock-based compensation expense	58	44	35
FDIC reimbursement (payments), net of FDIC expense		1	296
Deferred income taxes (benefit)	(76)	5	29
Proceeds from sales of loans held for sale	7,333	5,386	5,595
Originations of loans held for sale, net of repayments	(7,072)	(5,415)	(5,440)
Net losses (gains) from sale of loans held for sale	(103)	(97)	(115)
Net losses (gains) from principal investing	(51)	(78)	(52)
Net losses (gains) and writedown on OREO	4	3	6
Net losses (gains) on leased equipment	(6)	(35)	(43)
Net losses (gains) on sales of fixed assets	8	7	12
Net securities losses (gains)			(1)
Net decrease (increase) in trading account assets	(38)	(12)	(133)
Gain on sale of Victory		(10)	(146)
Loss on sale of residual interests and deconsolidation of securitization trusts		40	
Other operating activities, net	(151)	384	337
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,131	1,320	1,547
INVESTING ACTIVITIES			
Net decrease (increase) in short-term investments, excluding acquisitions	1,562	1,358	(1,650)
Purchases of securities available for sale	(4,090)	(3,797)	(5,222)
Proceeds from sales of securities available for sale	19		35
Proceeds from prepayments and maturities of securities available for sale	3,098	2,860	4,470
Proceeds from prepayments and maturities of held-to-maturity securities	1,102	850	847
Purchases of held-to-maturity securities	(988)	(1,109)	(1,672)
Purchases of other investments	(32)	(49)	(46)
Proceeds from sales of other investments	145	334	187
Proceeds from prepayments and maturities of other investments	8	4	6
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	(2,951)	(3,296)	(2,026)
Proceeds from sales of portfolio loans	110	120	185
Proceeds from corporate-owned life insurance	46	35	31
Purchases of premises, equipment, and software	(75)	(97)	(100)

Proceeds from sales of premises and equipment	1	1	8
Proceeds from sales of OREO	22	17	23
Cash received (used) in acquisitions, net of cash acquired		(114)	601
Proceeds from sale of residual interests		57	
Proceeds from sale of Victory		10	131
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(2,023)	(2,816)	(4,192)
FINANCING ACTIVITIES			
Net increase (decrease) in deposits, excluding acquisitions	(952)	2,736	2,333
Net increase (decrease) in short-term borrowings	(93)	(879)	(18)
Net proceeds from issuance of long-term debt	3,756	1,727	2,573
Payments on long-term debt	(1,172)	(1,355)	(1,545)
Repurchase of common shares	(448)	(484)	(474)
Net proceeds from reissuance of common shares	22	27	26
Cash dividends paid	(267)	(240)	(217)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	846	1,532	2,678
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS			
	(46)	36	33
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	653	617	584
CASH AND DUE FROM BANKS AT END OF YEAR	\$ 607	\$ 653	\$ 617

Additional disclosures relative to cash flows:			
Interest paid	\$ 329	\$ 298	\$ 304
Income taxes paid (refunded)	281	131	185
Noncash items:			
Reduction of secured borrowing and related collateral	\$ 160	\$ 152	
Loans transferred to portfolio from held for sale	1	19	\$ 9
Loans transferred to held for sale from portfolio	63	16	61
Loans transferred to other real estate owned	20	23	21
Assets acquired		41	41
Liabilities assumed		17	
LIHTC guaranteed funds put		7	

See Notes to Consolidated Financial Statements.

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1. Summary of Significant Accounting Policies

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

ABO: Accumulated benefit obligation.	IRS: Internal Revenue Service.
AICPA: American Institute of Certified Public Accountants.	ISDA: International Swaps and Derivatives Association.
ALCO: Asset/Liability Management Committee.	KAHC: Key Affordable Housing Corporation.
ALLL: Allowance for loan and lease losses.	KBCM: KeyBanc Capital Markets, Inc.
A/LM: Asset/liability management.	KCDC: Key Community Development Corporation.
AOCI: Accumulated other comprehensive income (loss).	KEF: Key Equipment Finance.
APBO: Accumulated postretirement benefit obligation.	KREEC: Key Real Estate Equity Capital, Inc.
ATMs: Automated teller machines.	LCR: Liquidity coverage ratio.
Austin: Austin Capital Management, Ltd.	LIBOR: London Interbank Offered Rate.
BSA: Bank Secrecy Act.	LIHTC: Low-income housing tax credit.
BHCA: Bank Holding Company Act of 1956, as amended.	Moody's: Moody's Investor Services, Inc.
BHCs: Bank holding companies.	MRM: Market Risk Management group.
Board: KeyCorp Board of Directors.	N/A: Not applicable.
CCAR: Comprehensive Capital Analysis and Review.	NASDAQ: The NASDAQ Stock Market LLC.
CFPB: Consumer Financial Protection Bureau.	NFA: National Futures Association.
CFTC: Commodities Futures Trading Commission.	N/M: Not meaningful.
CMBS: Commercial mortgage-backed securities.	NOW: Negotiable Order of Withdrawal.
CMO: Collateralized mortgage obligation.	NPR: Notice of proposed rulemaking.
Common shares: KeyCorp common shares, \$1 par value.	NYSE: New York Stock Exchange.

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DIF: Deposit Insurance Fund of the FDIC.	OCC: Office of the Comptroller of the Currency.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.	OCI: Other comprehensive income (loss).
EBITDA: Earnings before interest, taxes, depreciation, and amortization.	OREO: Other real estate owned.
EPS: Earnings per share.	OTTI: Other-than-temporary impairment.
ERISA: Employee Retirement Income Security Act of 1974.	PBO: Projected benefit obligation.
ERM: Enterprise risk management.	PCCR: Purchased credit card relationship.
EVE: Economic value of equity.	PCI: Purchased credit impaired.
FASB: Financial Accounting Standards Board.	S&P: Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc.
FDIA: Federal Deposit Insurance Act, as amended.	SEC: U.S. Securities & Exchange Commission.
FDIC: Federal Deposit Insurance Corporation.	Series A Preferred Stock: KeyCorp's 7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A.
Federal Reserve: Board of Governors of the Federal Reserve System.	SIFIs: Systemically important financial institutions, including BHCs with total consolidated assets of at least \$50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.
FHLB: Federal Home Loan Bank of Cincinnati.	TDR: Troubled debt restructuring.
FHLMC: Federal Home Loan Mortgage Corporation.	TE: Taxable-equivalent.
FINRA: Financial Industry Regulatory Authority.	U.S. Treasury: United States Department of the Treasury.
First Niagara: First Niagara Financial Group, Inc. (NASDAQ: FNFG)	VaR: Value at risk.
FNMA: Federal National Mortgage Association.	VEBA: Voluntary Employee Beneficiary Association.
FSOC: Financial Stability Oversight Council.	Victory: Victory Capital Management and/or Victory Capital Advisors.
FVA: Fair value of employee benefit plan assets.	VIE: Variable interest entity.
GAAP: U.S. generally accepted accounting principles.	
GNMA: Government National Mortgage Association.	

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Organization

We are one of the nation's largest bank-based financial services companies, with consolidated total assets of \$95.1 billion at December 31, 2015. We provide deposit, lending, cash management, and investment services to individuals and small and medium-sized businesses through our subsidiary, KeyBank. We also provide a broad range of sophisticated corporate and investment banking products, such as merger and acquisition advice, public and private debt and equity, syndications, and derivatives to middle market companies in selected industries throughout the United States through our subsidiary, KBCM. As of December 31, 2015, KeyBank operated 966 full-service retail banking branches and 1,256 ATMs in 12 states, as well as additional offices, online and mobile banking capabilities, and a telephone banking call center. Additional information pertaining to our two major business segments, Key Community Bank and Key Corporate Bank, is included in Note 23 (Line of Business Results).

Use of Estimates

Our accounting policies conform to GAAP and prevailing practices within the financial services industry. We must make certain estimates and judgments when determining the amounts presented in our consolidated financial statements and the related notes. If these estimates prove to be inaccurate, actual results could differ from those reported.

Basis of Presentation

The consolidated financial statements include the accounts of KeyCorp and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Some previously reported amounts have been reclassified to conform to current reporting practices.

The consolidated financial statements include any voting rights entities in which we have a controlling financial interest. In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments. See Note 11 (Variable Interest Entities) for information on our involvement with VIEs.

We use the equity method to account for unconsolidated investments in voting rights entities or VIEs if we have significant influence over the entity's operating and financing decisions (usually defined as a voting or economic interest of 20% to 50%, but not controlling). Unconsolidated investments in voting rights entities or VIEs in which we have a voting or economic interest of less than 20% generally are carried at cost. Investments held by our registered broker-dealer and investment company subsidiaries (primarily principal investments) are carried at fair value.

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users or filed with the SEC.

Noncontrolling Interests

Our Principal Investing unit and the Real Estate Capital and Corporate Banking Services line of business have noncontrolling interests that are accounted for in accordance with the applicable accounting guidance, which allows us

to report noncontrolling interests in subsidiaries as a component of equity on the balance sheet. Net

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income (loss) on the income statement includes Key's revenues, expenses, gains and losses, together with revenues, expenses, gains and losses pertaining to the noncontrolling interests. The portion of net results attributable to the noncontrolling interests is disclosed separately on the face of the income statement to arrive at the net income (loss) attributable to Key.

Statements of Cash Flows

Cash and due from banks are considered cash and cash equivalents for financial reporting purposes.

Loans

Loans are carried at the principal amount outstanding, net of unearned income, including net deferred loan fees and costs. We defer certain nonrefundable loan origination and commitment fees, and the direct costs of originating or acquiring loans. The net deferred amount is amortized over the estimated lives of the related loans as an adjustment to the yield.

Direct financing leases are carried at the aggregate of the lease receivable plus estimated unguaranteed residual values, less unearned income and deferred initial direct fees and costs. Unearned income on direct financing leases is amortized over the lease terms using a method approximating the interest method that produces a constant rate of return. Deferred initial direct fees and costs are amortized over the lease terms as an adjustment to the yield.

Leveraged leases are carried net of nonrecourse debt. Revenue on leveraged leases is recognized on a basis that produces a constant rate of return on the outstanding investment in the leases, net of related deferred tax liabilities, during the years in which the net investment is positive.

The residual value component of a lease represents the fair value of the leased asset at the end of the lease term. We rely on industry data, historical experience, independent appraisals and the experience of the equipment leasing asset management team to value lease residuals. Relationships with a number of equipment vendors give the asset management team insight into the life cycle of the leased equipment, pending product upgrades and competing products.

In accordance with applicable accounting guidance for leases, residual values are reviewed at least annually to determine if an other-than-temporary decline in value has occurred. In the event of such a decline, the residual value is adjusted to its fair value. Impairment charges are included in noninterest expense, while net gains or losses on sales of lease residuals are included in other income on the income statement.

Loans Held for Sale

Our loans held for sale at December 31, 2015, and December 31, 2014, are disclosed in Note 4 (Loans and Loans Held for Sale). These loans, which we originated and intend to sell, are carried at the lower of aggregate cost or fair value. Fair value is determined based on available market data for similar assets, expected cash flows, and appraisals of underlying collateral or the credit quality of the borrower. If a loan is transferred from the loan portfolio to the held-for-sale category, any write-down in the carrying amount of the loan at the date of transfer is recorded as a charge-off. Subsequent declines in fair value are recognized as a charge to noninterest income. When a loan is placed in the held-for-sale category, we stop amortizing the related deferred fees and costs. The remaining unamortized fees and costs are recognized as part of the cost basis of the loan at the time it is sold.

Nonperforming Loans

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

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We generally classify commercial loans as nonperforming and stop accruing interest (i.e., designate the loan nonaccrual) when the borrower's principal or interest payment is 90 days past due unless the loan is well-secured and in the process of collection. Commercial loans are also placed on nonaccrual status when payment is not past due but we have serious doubts about the borrower's ability to comply with existing repayment terms. Once a loan is designated nonaccrual (and as a result assessed for impairment), the interest accrued but not collected generally is charged against the ALLL, and payments subsequently received generally are applied to principal. However, if we believe that all principal and interest on a commercial nonaccrual loan ultimately are collectible, interest income may be recognized as received. Commercial loans generally are charged off in full or charged down to the fair value of the underlying collateral when the borrower's payment is 180 days past due.

We generally classify consumer loans as nonperforming and stop accruing interest when the borrower's payment is 120 days past due, unless the loan is well-secured and in the process of collection. Any second lien home equity loan with an associated first lien that is 120 days or more past due or in foreclosure, or for which the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan. Secured loans that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are designated as nonperforming and TDRs. Our charge-off policy for most consumer loans takes effect when payments are 120 days past due. Home equity and residential mortgage loans generally are charged down to net realizable value when payment is 180 days past due. Credit card loans and similar unsecured products continue to accrue interest until the account is charged off at 180 days past due.

Commercial and consumer loans may be returned to accrual status if we are reasonably assured that all contractually due principal and interest are collectible and the borrower has demonstrated a sustained period (generally six months) of repayment performance under the contracted terms of the loan and applicable regulation.

Impaired Loans

A nonperforming loan is considered to be impaired and assigned a specific reserve when, based on current information and events, it is probable that we will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement.

All commercial and consumer TDRs regardless of size and all impaired commercial loans with an outstanding balance of \$2.5 million or greater are individually evaluated for impairment. Nonperforming loans of less than \$2.5 million and smaller-balance homogeneous loans (residential mortgage, home equity loans, marine, etc.) are aggregated and collectively evaluated for impairment. The amount of the reserve is estimated based on the criteria outlined in the Allowance for Loan and Lease Losses section of this note.

Allowance for Loan and Lease Losses

The ALLL represents our estimate of probable credit losses inherent in the loan portfolio at the balance sheet date. We establish the amount of this allowance by analyzing the quality of the loan portfolio at least quarterly, and more often if deemed necessary. We segregate our loan portfolio between commercial and consumer loans and develop and document our methodology to determine the ALLL accordingly. We believe these portfolio segments represent the most appropriate level for determining our historical loss experience, as well as the level at which we monitor credit quality and risk characteristics of the portfolios. Commercial loans, which generally have larger individual balances, constitute a significant portion of our total loan portfolio. The consumer portfolio typically includes smaller-balance homogeneous loans.

We estimate the appropriate level of our ALLL by applying expected loss rates to existing loans with similar risk characteristics. Expected loss rates for commercial loans are derived from a statistical analysis of our historical default

and loss severity experience. The analysis utilizes probability of default and loss given default to assign loan grades using our internal risk rating system. Our expected loss rates are reviewed quarterly and updated as

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necessary. As of December 31, 2015, the probability of default ratings was based on our default data for the period from January 2008 through October 2015, which encompasses the last downturn period as well as our more recent positive credit experience. We adjust expected loss rates based on calculated estimates of the average time period from initial loss indication to the initial loss recorded for an individual loan.

Expected loss rates for consumer loans are derived from a statistical analysis of our historical default and loss severity experience. Consumer loans are analyzed quarterly in homogeneous product-type pools that share similar attributes and are assigned an expected loss rate that represents expected losses over the next 12 months. The estimate of the average time period from initial loss indication to initial loss recorded for consumer loans is one to two years.

The ALLL may be adjusted to reflect our current assessment of many qualitative factors that may not be directly measured in the statistical analysis of expected loss, including:

- ⌚ changes in international, national, regional, and local economic and business conditions;
- ⌚ changes in the experience, ability, and depth of our lending management and staff;
- ⌚ changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices;
- ⌚ changes in the nature and volume of the loan portfolio, including the existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- ⌚ changes in the volume and/or severity of past due, nonaccrual, and adversely classified or graded loans; and
- ⌚ external factors, such as competition, legal developments, and regulatory requirements.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of \$2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. Secured consumer loan balances of TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Other consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses.

In the third quarter of 2015, we enhanced the approach used to determine the commercial reserve factors used in estimating the commercial ALLL, which had the effect of capturing certain elements in the commercial quantitative

reserve component that had formerly been included in the commercial qualitative component. Under the enhanced methodology, we began utilizing more refined commercial estimated loss rates that represent cumulative losses over the estimated average time period from the onset of credit deterioration to the initial loss recorded for an individual loan. In addition, we began utilizing an enhanced framework to quantify commercial ALLL adjustments resulting from qualitative factors that may not be fully captured within the statistical analysis of incurred loss. The impact of these changes was largely neutral to the total ALLL. However, because the quantitative reserve is allocated to the business segments at a loan level, while the qualitative portion is allocated at the portfolio level, the impact of the methodology enhancements on the allowance for each business segment and each portfolio caused the business segment and commercial portfolio reserves to increase or decrease accordingly. The impact of the increases and decreases on the business segment and commercial portfolio reserves was not significant.

Table of Contents**Liability for Credit Losses on Lending-Related Commitments**

The liability for credit losses inherent in lending-related commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. This liability totaled \$56 million at December 31, 2015, and \$35 million at December 31, 2014. We establish the amount of this liability by considering both historical trends and current market conditions quarterly, or more often if deemed necessary.

Fair Value Measurements

We follow the applicable accounting guidance for fair value measurements and disclosures for all applicable financial and nonfinancial assets and liabilities. This guidance defines fair value, establishes a framework for measurement, and addresses disclosures about fair value measurements. Fair value-related guidance applies only when other guidance requires or permits assets or liabilities to be measured at fair value; it does not expand the use of fair value to any new circumstances.

Accounting guidance defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants in our principal market. In other words, fair value represents an exit price at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value.

We value our assets and liabilities based on the principal market where each would be sold (in the case of assets) or transferred (in the case of liabilities). The principal market is the forum with the greatest volume and level of activity. In the absence of a principal market, valuation is based on the most advantageous market (i.e., the market where the asset could be sold at a price that maximizes the amount to be received or the liability transferred at a price that minimizes the amount to be paid). In the absence of observable market transactions, we consider liquidity valuation adjustments to reflect the uncertainty in pricing the instruments.

In measuring the fair value of an asset, we assume the highest and best use of the asset by a market participant not just the intended use to maximize the value of the asset. We also consider whether any credit valuation adjustments are necessary based on the counterparty's credit quality.

When measuring the fair value of a liability, we assume that the transfer will not affect the associated nonperformance risk. Nonperformance risk is the risk that an obligation will not be satisfied, and encompasses not only our own credit risk (i.e., the risk that we will fail to meet our obligation), but also other risks such as settlement risk (i.e., the risk that upon termination or sale, the contract will not settle). We consider the effect of our own credit risk on the fair value for any period in which fair value is measured.

There are three acceptable techniques for measuring fair value: the market approach, the income approach, and the cost approach. The appropriate technique for valuing a particular asset or liability depends on the exit market, the nature of the asset or liability being valued, and how a market participant would value the same asset or liability. Ultimately, selecting the appropriate valuation method requires significant judgment, and applying the valuation technique requires sufficient knowledge and expertise.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability. Inputs can be observable or unobservable. Observable inputs are assumptions based on market data obtained from an independent source. Unobservable inputs are assumptions based on our own information or assessment of assumptions used by other market participants in pricing the asset or liability. Our unobservable inputs are based on the best and

most current information available on the measurement date.

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All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for Level 2 assets or liabilities are based on one or a combination of the following factors: (i) quoted market prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data. The level in the fair value hierarchy ascribed to a fair value measurement in its entirety is based on the lowest level input that is significant to the measurement. We consider an input to be significant if it drives 10% or more of the total fair value of a particular asset or liability. Assets and liabilities may transfer between levels based on the observable and unobservable inputs used at the valuation date, as the inputs may be influenced by certain market conditions. We recognize transfers between levels of the fair value hierarchy at the end of the reporting period.

Typically, assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly. However, if the fair value measurement of an instrument does not necessarily result in a change in the amount recorded on the balance sheet, assets and liabilities are considered to be fair valued on a nonrecurring basis. This generally occurs when we apply accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment.

At a minimum, we conduct our valuations quarterly. Additional information regarding fair value measurements and disclosures is provided in Note 6 (Fair Value Measurements).

Short-Term Investments

Short-term investments consist of segregated, interest-bearing deposits due from banks, the Federal Reserve, and certain non-U.S. banks as well as reverse repurchase agreements. Reverse repurchase agreements are further described under the Repurchase agreements heading in this section.

Trading Account Assets

Trading account assets are debt and equity securities, as well as commercial loans, that we purchase and hold but intend to sell in the near term. These assets are reported at fair value. Realized and unrealized gains and losses on trading account assets are reported in other income on the income statement.

Securities

Securities available for sale. Securities available for sale are securities that we intend to hold for an indefinite period of time but that may be sold in response to changes in interest rates, prepayment risk, liquidity needs, or other factors. Securities available for sale are reported at fair value. Unrealized gains and losses (net of income taxes) deemed temporary are recorded in equity as a component of AOCI on the balance sheet. Unrealized losses on equity securities deemed other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method, are included in other income on the income statement. Unrealized losses on debt securities deemed other-than-temporary are included in other income on the income statement or in AOCI in accordance with the applicable accounting guidance, as further described under the heading Other-than-Temporary Impairments in this note and in Note 7 (Securities).

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

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

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

Other-than-Temporary Impairments

If the amortized cost of a debt security is greater than its fair value and we intend to sell it, or it is more-likely-than-not that we will be required to sell it, before the expected recovery of the amortized cost, then the entire impairment is recognized in earnings. If we have no intent to sell the security, or it is more-likely-than-not that we will not be required to sell it, before expected recovery, then the credit portion of the impairment is recognized in earnings, while the remaining portion attributable to factors such as liquidity and interest rate changes is recognized in equity as a component of AOCI on the balance sheet. The credit portion is equal to the difference between the cash flows expected to be collected and the amortized cost of the debt security.

Generally, if the amortized cost of an equity security is greater than its fair value by more than 20% consistently for more than six months, the difference is considered to be other-than-temporary.

Other Investments

Principal investments investments in equity and debt instruments made by our Principal Investing unit represented 46% and 53% of other investments at December 31, 2015, and December 31, 2014, respectively, and included both direct investments (investments made in a particular company) and indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value (\$304 million at December 31, 2015, and \$406 million at December 31, 2014). Changes in fair values and realized gains and losses on sales of principal investments are reported as net gains (losses) from principal investing on the income statement.

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real estate-related investments that are carried at fair value, as well as other types of investments that generally are carried at cost. The carrying amounts of the investments carried at cost are adjusted for declines in value if they are considered to be other-than-temporary. These adjustments are included in other income on the income statement.

Repurchase agreements

We enter into repurchase and reverse repurchase agreements primarily to acquire securities to cover short positions, to finance our investing positions, and to settle other securities obligations. Repurchase and reverse repurchase agreements are accounted for as collateralized financing transactions and recorded on our balance sheet at the amounts at which the securities will be subsequently sold or repurchased. The value of our repurchase and reverse repurchase agreements is based on the valuation of the underlying securities, as further described under the Other assets and liabilities heading in Note 6 (Fair Value Measurements). Fees received in connection with these transactions are recorded in interest income; fees paid are recorded in interest expense.

Derivatives

In accordance with applicable accounting guidance, all derivatives are recognized as either assets or liabilities on the balance sheet at fair value. The net increase or decrease in derivatives is included in other operating activities, net within the statement of cash flows.

Accounting for changes in fair value (i.e., gains or losses) of derivatives differs depending on whether the derivative has been designated and qualifies as part of a hedge relationship, and further, on the type of hedge relationship. For

derivatives that are not designated as hedging instruments, any gain or loss is recognized immediately in earnings. A derivative that is designated and qualifies as a hedging instrument must be designated as a fair value hedge, a cash flow hedge, or a hedge of a net investment in a foreign operation.

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A fair value hedge is used to limit exposure to changes in the fair value of existing assets, liabilities, and commitments caused by changes in interest rates or other economic factors. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recognized in other income on the income statement, with no corresponding offset.

A cash flow hedge is used to minimize the variability of future cash flows that is caused by changes in interest rates or other economic factors. The effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet and reclassified to earnings in the same period in which the hedged transaction affects earnings. The ineffective portion of a cash flow hedge is included in other income on the income statement.

A net investment hedge is used to hedge the exposure of changes in the carrying value of investments as a result of changes in the related foreign exchange rates. The effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings. The ineffective portion of a net investment hedge is included in other income on the income statement.

Hedge effectiveness is determined by the extent to which changes in the fair value of a derivative instrument offset changes in the fair value, cash flows, or carrying value attributable to the risk being hedged. If the relationship between the change in the fair value of the derivative instrument and the change in the hedged item falls within a range considered to be the industry norm, the hedge is considered highly effective and qualifies for hedge accounting. A hedge is ineffective if the relationship between the changes falls outside the acceptable range. In that case, hedge accounting is discontinued on a prospective basis. Hedge effectiveness is tested at least quarterly.

Additional information regarding the accounting for derivatives is provided in Note 8 (Derivatives and Hedging Activities).

Offsetting Derivative Positions

In accordance with the applicable accounting guidance, we take into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related cash collateral when recognizing derivative assets and liabilities. Additional information regarding derivative offsetting is provided in Note 8 (Derivatives and Hedging Activities).

Servicing Assets

We service commercial real estate loans. Servicing assets related to all commercial real estate loan servicing totaled \$321 million at December 31, 2015, and \$323 million at December 31, 2014, and are included in accrued income and other assets on the balance sheet.

Servicing assets and liabilities purchased or retained initially are measured at fair value. When no ready market value (such as quoted market prices, or prices based on sales or purchases of similar assets) is available to determine the fair value of servicing assets, fair value is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation is based on a number of assumptions, including the market cost of servicing, the discount rate, the prepayment rate, and the default rate.

We remeasure our servicing assets using the amortization method at each reporting date. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income and recorded in mortgage servicing fees on the income statement.

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Servicing assets are evaluated quarterly for possible impairment. This process involves classifying the assets based on the types of loans serviced and determining the fair value of each class. If the evaluation indicates that the carrying amount of the servicing assets exceeds their fair value, the carrying amount is reduced by recording a charge to income in the amount of such excess and establishing a valuation reserve allowance. Any impairment of servicing assets recorded for the years ended December 31, 2015, December 31, 2014, and December 2013, was not material in amount. Additional information pertaining to servicing assets is included in Note 9 (Mortgage Servicing Assets).

Business Combinations

We account for our business combinations using the acquisition method of accounting. Under this accounting method, the acquired company's assets and liabilities are recorded at fair value at the date of acquisition, and the results of operations of the acquired company are combined with Key's results from that date forward. Acquisition costs are expensed when incurred. The difference between the purchase price and the fair value of the net assets acquired (including intangible assets with finite lives) is recorded as goodwill. Our accounting policy for intangible assets is summarized in this note under the heading Goodwill and Other Intangible Assets.

Additional information regarding acquisitions is provided in Note 13 (Acquisitions and Discontinued Operations).

Goodwill and Other Intangible Assets

Goodwill represents the amount by which the cost of net assets acquired in a business combination exceeds their fair value. Other intangible assets primarily are the net present value of future economic benefits to be derived from the purchase of credit card receivable assets and core deposits. Other intangible assets are amortized on either an accelerated or straight-line basis over periods ranging from 1 ½ to 30 years. Goodwill and other types of intangible assets deemed to have indefinite lives are not amortized.

Relevant accounting guidance provides that goodwill and certain other intangible assets must be subjected to impairment testing at least annually. We perform quantitative goodwill impairment testing in the fourth quarter of each year. Our reporting units for purposes of this testing are our two business segments, Key Community Bank and Key Corporate Bank. We continue to monitor the impairment indicators for goodwill and other intangible assets, and to evaluate the carrying amount of these assets quarterly.

The first step in goodwill impairment testing is to determine the fair value of each reporting unit. This amount is estimated using comparable external market data (market approach) and discounted cash flow modeling that incorporates an appropriate risk premium and earnings forecast information (income approach). The amount of capital being allocated to our reporting units as a proxy for the carrying value is based on risk-based regulatory capital requirements. If the carrying amount of a reporting unit exceeds its fair value, goodwill impairment may be indicated. In such a case, we would perform the second step of goodwill impairment testing, and we would estimate a hypothetical purchase price for the reporting unit (representing the unit's fair value). Then we would compare that hypothetical purchase price with the fair value of the unit's net assets (excluding goodwill). Any excess of the estimated purchase price over the fair value of the reporting unit's net assets represents the implied fair value of goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of goodwill, the impairment loss represented by this difference is charged to earnings.

Additional information pertaining to goodwill and other intangible assets is included in Note 10 (Goodwill and Other Intangible Assets).

Purchased Loans

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. Purchased performing loans that do not have evidence of deterioration in credit quality at acquisition are recorded at fair

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value at the acquisition date. Any premium or discount associated with purchased performing loans is recognized as an expense or income based on the effective yield method of amortization. Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected, are deemed PCI. Purchased loans are initially recorded at fair value without recording an allowance for loan losses. Fair value of these loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of future credit losses and prepayments, and then a market-based discount rate is applied to those cash flows. PCI loans are generally accounted for on a pool basis, with pools formed based on the common characteristics of the loans, such as loan collateral type or loan product type. Each pool is accounted for as a single asset with one composite interest rate and an aggregate expectation of cash flows.

Under the applicable accounting guidance for PCI loans, the excess of cash flows expected to be collected over the carrying amount of the loans, referred to as the accretable amount, is accreted into interest income over the life of the loans in each pool using the effective yield method. Accordingly, PCI loans are not subject to classification as nonaccrual (and nonperforming) in the same manner as originated loans. Rather, acquired PCI loans are considered to be accruing loans because their interest income relates to the accretable yield recognized at the pool level and not to contractual interest payments at the loan level. The difference between contractually required principal and interest payments and the cash flows expected to be collected, referred to as the nonaccretable amount, includes estimates of both the impact of prepayments and future credit losses expected to be incurred over the life of the loans in each pool.

After we acquire loans determined to be PCI loans, actual cash collections are monitored to determine if they conform to management's expectations. Revised cash flow expectations are prepared, as necessary. A decrease in expected cash flows in subsequent periods may indicate that the loan pool is impaired, which would require us to establish an allowance for loan losses by recording a charge to the provision for loan losses. An increase in expected cash flows in subsequent periods initially reduces any previously established allowance for loan losses by the increase in the present value of cash flows expected to be collected, and requires us to recalculate the amount of accretable yield for the loan pool. The adjustment of accretable yield due to an increase in expected cash flows is accounted for as a change in estimate. The additional cash flows expected to be collected are reclassified from the nonaccretable difference to the accretable yield, and the amount of periodic accretion is adjusted accordingly over the remaining life of the loans in the pool.

A PCI loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. If the loan is sold, a gain or loss on sale is recognized and reported within noninterest income based on the difference between the sales proceeds and the carrying amount of the loan. In the case of a foreclosure, an individual loan is removed from the pool at an amount received from its resolution (fair value of the underlying collateral less costs to sell). Any difference between this amount and the loan carrying value is absorbed by the nonaccretable difference established for the entire pool. For loans resolved by payment in full, there is no difference between the amount received at resolution and the outstanding balance of the loan. In these cases, the remaining accretable amount balance is unaffected, and any material change in remaining effective yield caused by removing the loan from the pool is addressed in connection with the subsequent cash flow re-assessment for the pool. PCI loans subject to modification are not removed from the pool even if those loans would otherwise be deemed TDRs since the pool, and not the individual loan, represents the unit of account.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. We determine depreciation of premises and equipment using the straight-line method over the estimated useful lives of the particular assets. Leasehold improvements are amortized using the straight-line

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method over the terms of the leases. Accumulated depreciation and amortization on premises and equipment totaled \$1.4 billion at December 31, 2015, and \$1.3 billion at December 31, 2014.

Internally Developed Software

We rely on company personnel and independent contractors to plan, develop, install, customize, and enhance computer systems applications that support corporate and administrative operations. Software development costs, such as those related to program coding, testing, configuration, and installation, are capitalized and included in accrued income and other assets on the balance sheet. The resulting asset, net of accumulated amortization, totaled \$77 million at December 31, 2015, and \$64 million at December 31, 2014, and is amortized using the straight-line method over its expected useful life (not to exceed five years). Costs incurred during the planning and post-development phases of an internal software project are expensed as incurred.

Software that is no longer used is written off to earnings immediately. When we decide to replace software, amortization of the phased-out software is accelerated to the expected replacement date.

Guarantees

In accordance with the applicable accounting guidance, we recognize liabilities, which are included in accrued expense and other liabilities on the balance sheet, for the fair value of our obligations under certain guarantees issued.

If we receive a fee for a guarantee requiring liability recognition, the amount of the fee represents the initial fair value of the stand ready obligation. If there is no fee, the fair value of the stand ready obligation is determined using expected present value measurement techniques, unless observable transactions for comparable guarantees are available. The subsequent accounting for these stand ready obligations depends on the nature of the underlying guarantees. We account for our release from risk under a particular guarantee when the guarantee expires or is settled, or by a systematic and rational amortization method, depending on the risk profile of the guarantee.

Additional information regarding guarantees is included in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Guarantees.

Revenue Recognition

We recognize revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. Our principal source of revenue is interest income, which is recognized on an accrual basis primarily according to nondiscretionary formulas in written contracts, such as loan agreements or securities contracts.

Stock-Based Compensation

Stock-based compensation is measured using the fair value method of accounting. The measured cost is recognized over the period during which the recipient is required to provide service in exchange for the award. We estimate expected forfeitures when stock-based awards are granted and record compensation expense only for awards that are expected to vest.

We recognize compensation cost for stock-based, mandatory deferred incentive compensation awards using the accelerated method of amortization over a period of approximately five years (the current year performance period and a four-year vesting period, which generally starts in the first quarter following the performance period) for awards

granted in 2012 and after, and over a period of approximately four years (the current year performance period and a three-year vesting period, which generally starts in the first quarter following the performance period) for awards granted prior to 2012.

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Employee stock options typically become exercisable at the rate of 25% per year, beginning one year after the grant date. Options expire no later than 10 years after their grant date. We recognize stock-based compensation expense for stock options with graded vesting using an accelerated method of amortization.

We use shares repurchased under our annual capital plan submitted to our regulators (treasury shares) for share issuances under all stock-based compensation programs.

We estimate the fair value of options granted using the Black-Scholes option-pricing model, as further described in Note 15 (Stock-Based Compensation).

Marketing Costs

We expense all marketing-related costs, including advertising costs, as incurred.

Accounting Guidance Adopted in 2015

Troubled debt restructurings. In August 2014, the FASB issued new accounting guidance that clarifies how to account for certain government-guaranteed mortgage loans upon foreclosure. This accounting guidance was effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and could be implemented using either a modified retrospective method or a prospective method. Early adoption was permitted. We elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Transfers and servicing of financial assets. In June 2014, the FASB issued new accounting guidance that applies secured borrowing accounting to repurchase-to-maturity transactions and linked repurchase financings and expands disclosure requirements. This accounting guidance was effective for interim and annual reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and was implemented using a cumulative-effect approach to transactions outstanding as of the effective date with no adjustment to prior periods. The disclosure for secured borrowings has been presented for annual periods beginning after December 15, 2014 and for interim periods beginning after March 15, 2015 (June 30, 2015, for us). Early adoption was not permitted. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Discontinued operations. In April 2014, the FASB issued new accounting guidance that revises the criteria for determining when disposals should be reported as discontinued operations and modifies the disclosure requirements. This accounting guidance was effective prospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption was permitted. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Investments in qualified affordable housing projects. In January 2014, the FASB issued new accounting guidance that modifies the conditions that must be met to make an election to account for investments in qualified affordable housing projects using the proportional amortization method or the practical expedient method to the proportional amortization method. This accounting guidance was effective retrospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption was permitted. We elected to amortize our LIHTCs under the practical expedient method to the proportional amortization method. As our LIHTCs were previously accounted for under the effective yield method and related amortization expense was previously classified as income taxes in our Consolidated Statements of Income, the adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide additional information regarding our LIHTCs in Note 11 (Variable Interest Entities).

Troubled debt restructurings. In January 2014, the FASB issued new accounting guidance that clarifies the definition of when an in substance repossession or foreclosure occurs for purposes of creditor reclassification of

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residential real estate collateralized consumer mortgage loans by derecognizing the loan and recognizing the collateral asset. This accounting guidance was effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and could be implemented using either a modified retrospective method or prospective method. Early adoption was permitted. We elected to implement the new accounting guidance using a prospective approach. The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide the disclosure related to consumer residential mortgages required by this new accounting guidance in Note 5 (Asset Quality).

Accounting Guidance Pending Adoption at December 31, 2015

Financial instruments. In January 2016, the FASB issued new accounting guidance that requires equity investments, except those accounted for under the equity method of accounting or consolidated, to be measured at fair value with changes recognized in net income. If there is no readily determinable fair value, the guidance allows entities the ability to measure investments at cost less impairment, whereby impairment is based on a qualitative assessment. The guidance eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost and changes the presentation of financial assets and financial liabilities on the balance sheet or in the footnotes. If an entity has elected the fair value option to measure liabilities, the new accounting guidance requires the portion of the change in the fair value of a liability resulting from credit risk to be presented in OCI. We have not elected to measure any of our liabilities at fair value. This accounting and disclosure guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). For the guidance applicable to us, the accounting will be implemented on a prospective basis, whereby early adoption is not permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

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

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

Cloud computing fees. In April 2015, the FASB issued new accounting guidance that clarifies a customer's accounting for fees paid in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a prospective method or a retrospective method. Early adoption is permitted. We have

elected to implement this new accounting guidance using a prospective approach. The

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adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

Consolidation. In February 2015, the FASB issued new accounting guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance amends the current accounting guidance to address limited partnerships and similar legal entities, certain investment funds, fees paid to a decision maker or service provider, and the impact of fee arrangements and related parties on the primary beneficiary determination. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and should be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

Going concern. In August 2014, the FASB issued new accounting guidance that requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. Disclosure is required when conditions or events raise substantial doubt about an entity's ability to continue as a going concern. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

Stock-based compensation. In June 2014, the FASB issued new accounting guidance that clarifies how to account for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a retrospective

method or a prospective method. Early adoption is permitted. We have elected to implement this new accounting guidance using a prospective approach. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

Table of Contents**2. Earnings Per Common Share**

Basic earnings per share is the amount of earnings (adjusted for dividends declared on our preferred stock) available to each common share outstanding during the reporting periods. Diluted earnings per share is the amount of earnings available to each common share outstanding during the reporting periods adjusted to include the effects of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for the conversion of our convertible Series A Preferred Stock, stock options, and other stock-based awards. Potentially dilutive common shares are excluded from the computation of diluted earnings per share in the periods where the effect would be antidilutive. For diluted earnings per share, net income available to common shareholders can be affected by the conversion of our convertible Series A Preferred Stock. Where the effect of this conversion would be dilutive, net income available to common shareholders is adjusted by the amount of preferred dividends associated with our Series A Preferred Stock.

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

Year ended December 31, <i>dollars in millions, except per share amounts</i>	2015	2014	2013
EARNINGS			
Income (loss) from continuing operations	\$ 919	\$ 946	\$ 870
Less: Net income (loss) attributable to noncontrolling interests	4	7	
Income (loss) from continuing operations attributable to Key	915	939	870
Less: Dividends on Series A Preferred Stock	23	22	23
Income (loss) from continuing operations attributable to Key common shareholders	892	917	847
Income (loss) from discontinued operations, net of taxes ^(a)	1	(39)	40
Net income (loss) attributable to Key common shareholders	\$ 893	\$ 878	\$ 887
WEIGHTED-AVERAGE COMMON SHARES			
Weighted-average common shares outstanding (000)	836,846	871,464	906,524
Effect of convertible preferred stock			
Effect of common share options and other stock awards	7,643	6,735	6,047
Weighted-average common shares and potential common shares outstanding (000) ^(b)	844,489	878,199	912,571
EARNINGS PER COMMON SHARE			
Income (loss) from continuing operations attributable to Key common shareholders	\$ 1.06	\$ 1.05	\$.93
Income (loss) from discontinued operations, net of taxes ^(a)		(.04)	.04

Net income (loss) attributable to Key common shareholders ^(c)		1.06		1.01		.98
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	\$	1.05	\$	1.04	\$.93
Income (loss) from discontinued operations, net of taxes ^(a)				(.04)		.04
Net income (loss) attributable to Key common shareholders assuming dilution ^(f)		1.05		.99		.97

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations, see Note 13 (Acquisitions and Discontinued Operations).

(b) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

(c) EPS may not foot due to rounding.

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3. Restrictions on Cash, Dividends and Lending Activities

Federal law requires a depository institution to maintain a prescribed amount of cash or deposit reserve balances with its Federal Reserve Bank. KeyBank maintained average reserve balances aggregating \$243 million in 2015 to fulfill these requirements.

Capital distributions from KeyBank and other subsidiaries are our principal source of cash flows for paying dividends on our common and preferred shares, servicing our debt, and financing corporate operations. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank's dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the previous two calendar years and for the current year, up to the date the dividend is declared.

During 2015, KeyBank paid \$1 billion in dividends to KeyCorp. At January 1, 2016, KeyBank had regulatory capacity to pay \$553 million in dividends to KeyCorp without prior regulatory approval. At December 31, 2015, KeyCorp held \$2.7 billion in short-term investments, which can be used to pay dividends to shareholders, service debt, and finance corporate operations.

As indicated in the Supervision and Regulation section of Item 1 of this report under the heading Bank transactions with affiliates, federal law and regulation also restricts loans and advances from bank subsidiaries to their parent companies (and to nonbank subsidiaries of their parent companies), and requires those transactions to be secured.

Table of Contents**4. Loans and Loans Held for Sale**

Our loans by category are summarized as follows:

December 31, <i>in millions</i>	2015	2014
Commercial, financial and agricultural ^(a)	\$ 31,240	\$ 27,982
Commercial real estate:		
Commercial mortgage	7,959	8,047
Construction	1,053	1,100
Total commercial real estate loans	9,012	9,147
Commercial lease financing ^(b)	4,020	4,252
Total commercial loans	44,272	41,381
Residential Prime Loans:		
Real estate residential mortgage	2,242	2,225
Home equity:		
Key Community Bank	10,127	10,366
Other	208	267
Total home equity loans	10,335	10,633
Total residential prime loans	12,577	12,858
Consumer other Key Community Bank	1,600	1,560
Credit cards	806	754
Consumer other:		
Marine	583	779
Other	38	49
Total consumer other	621	828
Total consumer loans	15,604	16,000
Total loans ^{(c) (d)}	\$ 59,876	\$ 57,381

(a) Loan balances include \$85 million and \$88 million of commercial credit card balances at December 31, 2015, and December 31, 2014, respectively.

(b) Commercial lease financing includes receivables of \$134 million and \$302 million held as collateral for a secured borrowing at December 31, 2015, and December 31, 2014, respectively. Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 18 (Long-Term Debt).

(c)

At December 31, 2015, total loans include purchased loans of \$114 million, of which \$11 million were PCI loans. At December 31, 2014, total loans include purchased loans of \$138 million, of which \$13 million were PCI loans.

(d) Total loans exclude loans in the amount of \$1.8 billion at December 31, 2015, and \$2.3 billion at December 31, 2014, related to the discontinued operations of the education lending business.

We use interest rate swaps, which modify the repricing characteristics of certain loans, to manage interest rate risk. For more information about such swaps, see Note 8 (Derivatives and Hedging Activities).

Our loans held for sale by category are summarized as follows:

December 31,

<i>in millions</i>	2015	2014
Commercial, financial and agricultural	\$ 76	\$ 63
Real estate commercial mortgage	532	638
Commercial lease financing	14	15
Real estate residential mortgage	17	18
Total loans held for sale	\$ 639	\$ 734

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Our summary of changes in loans held for sale follows:

Year ended December 31,*in millions*

		2015		2014
Balance at beginning of the period	\$	734	\$	611
New originations		7,108		5,681
Transfers from (to) held to maturity, net		62		(3)
Loan sales		(7,229)		(5,289)
Loan draws (payments), net		(36)		(266)
Balance at end of period	\$	639	\$	734

Commercial lease financing receivables primarily are direct financing leases, but also include leveraged leases. The composition of the net investment in direct financing leases is as follows:

December 31,*in millions*

		2015		2014
Direct financing lease receivables	\$	2,821	\$	3,009
Unearned income		(224)		(205)
Unguaranteed residual value		261		220
Deferred fees and costs		17		18
Net investment in direct financing leases	\$	2,875	\$	3,042

At December 31, 2015, minimum future lease payments to be received are as follows: 2016 \$930 million; 2017 \$695 million; 2018 \$451 million; 2019 \$294 million; 2020 \$169 million; and all subsequent years \$200 million. The allowance related to lease financing receivables is \$47 million at December 31, 2015.

5. Asset Quality

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

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

Our nonperforming assets and past due loans were as follows:

December 31, <i>in millions</i>		2015		2014
Total nonperforming loans ^{(a), (b)}	\$	387	\$	418
OREO ^(c)		14		18
Other nonperforming assets		2		
Total nonperforming assets	\$	403	\$	436
Nonperforming assets from discontinued operations education lending ^(d)	\$	7	\$	11
Restructured loans included in nonperforming loans	\$	159	\$	157
Restructured loans with an allocated specific allowance ^(e)		69		82
Specifically allocated allowance for restructured loans ^(f)		30		34
Accruing loans past due 90 days or more	\$	72	\$	96
Accruing loans past due 30 through 89 days		208		235

(a) Loan balances exclude \$11 million and \$13 million of PCI loans at December 31, 2015, and December 31, 2014, respectively.

(b) Includes carrying value of consumer residential mortgage loans in the process of foreclosure of approximately \$114 million at December 31, 2015.

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(c) Includes carrying value of foreclosed residential real estate of approximately \$11 million at December 31, 2015.

(d) Restructured loans of approximately \$21 million and \$17 million are included in discontinued operations at December 31, 2015, and December 31, 2014, respectively. See Note 13 (Acquisitions and Discontinued Operations) for further discussion.

(e) Included in individually impaired loans allocated a specific allowance.

(f) Included in allowance for individually evaluated impaired loans.

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

At December 31, 2015, the outstanding unpaid principal balance and carrying value of all PCI loans was \$17 million and \$11 million, respectively. At December 31, 2014, the outstanding unpaid principal balance and carrying value of all PCI loans was \$20 million and \$13 million, respectively, compared to \$24 million and \$16 million, respectively, at December 31, 2013. Changes in the accretable yield during 2015 included accretion and net reclassifications of less than \$1 million, resulting in an ending balance of \$5 million at December 31, 2015, which was unchanged from the ending balance at December 31, 2014. Changes in the accretable yield during 2014 included accretion and net reclassifications of less than \$1 million, resulting in an ending balance of \$5 million at December 31, 2014, which was unchanged from the ending balance at December 31, 2013.

At December 31, 2015, the approximate carrying amount of our commercial nonperforming loans outstanding represented 66% of their original contractual amount owed, total nonperforming loans outstanding represented 79% of their original contractual amount owed, and nonperforming assets in total were carried at 79% of their original contractual amount owed.

At December 31, 2015, our 20 largest nonperforming loans totaled \$97 million, representing 25% of total loans on nonperforming status. At December 31, 2014, our 20 largest nonperforming loans totaled \$88 million, representing 21% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by \$16 million for each of the years ended December 31, 2015, and December 31, 2014.

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The following tables set forth a further breakdown of individually impaired loans as of December 31, 2015, December 31, 2014, and December 31, 2013:

December 31, 2015

<i>in millions</i>	Recorded Investment	(a)	Unpaid Principal Balance	(b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 40		\$ 74			\$ 23
Commercial real estate:						
Commercial mortgage	5		8			10
Construction	5		5			5
Total commercial real estate loans	10		13			15
Total commercial loans	50		87			38
Real estate residential mortgage	23		23			24
Home equity:						
Key Community Bank	59		59			61
Other	2		2			1
Total home equity loans	61		61			62
Consumer other:						
Marine	1		1			1
Total consumer other	1		1			1
Total consumer loans	85		85			87
Total loans with no related allowance recorded	135		172			125
With an allowance recorded:						
Commercial, financial and agricultural	28		43	\$ 7		33
Commercial real estate:						
Commercial mortgage	5		6	1		6
Construction						1
Total commercial real estate loans	5		6	1		7
Total commercial loans	33		49	8		40
Real estate residential mortgage	33		33	4		32
Home equity:						
Key Community Bank	55		55	19		50
Other	9		9	1		10
Total home equity loans	64		64	20		60
Consumer other Key Community Bank	3		3			4
Credit cards	3		3			4
Consumer other:						
Marine	36		36	3		39
Other	1		1			1

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Total consumer other	37	37	3	40
Total consumer loans	140	140	27	140
Total loans with an allowance recorded	173	189	35	180
Total	\$ 308	\$ 361	\$ 35	\$ 305

(a) The Recorded Investment represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

(b) The Unpaid Principal Balance represents the customer's legal obligation to us.

Table of Contents**December 31, 2014**

<i>in millions</i>	Recorded Investment	(a)	Unpaid Principal Balance	(b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 6		\$ 17			\$ 8
Commercial real estate:						
Commercial mortgage	15		20			19
Construction	5		6			7
Total commercial real estate loans	20		26			26
Total commercial loans	26		43			34
Real estate residential mortgage	24		24			30
Home equity:						
Key Community Bank	62		63			63
Other	1		1			2
Total home equity loans	63		64			65
Consumer other:						
Marine	2		2			2
Total consumer other	2		2			2
Total consumer loans	89		90			97
Total loans with no related allowance recorded	115		133			131
With an allowance recorded:						
Commercial, financial and agricultural	37		37	\$ 9		28
Commercial real estate:						
Commercial mortgage	6		6	2		6
Construction	3		3	1		2
Total commercial real estate loans	9		9	3		8
Total commercial loans	46		46	12		36
Real estate residential mortgage	31		31	5		25
Home equity:						
Key Community Bank	46		46	16		43
Other	11		11	2		11
Total home equity loans	57		57	18		54
Consumer other:						
Consumer other Key Community Bank	4		4			3
Credit cards	4		4			4
Consumer other:						
Marine	43		43	5		45
Other	2		2			2
Total consumer other	45		45	5		47
Total consumer loans	141		141	28		133
Total loans with an allowance recorded	187		187	40		169
Total	\$ 302		\$ 320	\$ 40		\$ 300

- (a) The Recorded Investment represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

- (b) The Unpaid Principal Balance represents the customer's legal obligation to us.

Table of Contents**December 31, 2013**

<i>in millions</i>	Recorded Investment	(a)	Unpaid Principal Balance	(b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 33		\$ 69			\$ 33
Commercial real estate:						
Commercial mortgage	21		25			55
Construction	48		131			48
Total commercial real estate loans	69		156			103
Total commercial loans	102		225			136
Real estate residential mortgage	27		27			24
Home equity:						
Key Community Bank	67		67			66
Other	2		2			2
Total home equity loans	69		69			68
Consumer other:						
Marine	3		3			2
Total consumer other	3		3			2
Total consumer loans	99		99			94
Total loans with no related allowance recorded	201		324			230
With an allowance recorded:						
Commercial, financial and agricultural	17		20	\$ 8		25
Commercial real estate:						
Commercial mortgage	6		6	2		7
Construction	2		12			1
Total commercial real estate loans	8		18	2		8
Total commercial loans	25		38	10		33
Real estate residential mortgage	29		29	9		23
Home equity:						
Key Community Bank	35		35	10		29
Other	10		11	1		9
Total home equity loans	45		46	11		38
Consumer other:						
Consumer other Key Community Bank	3		3	1		2
Credit cards	5		5	1		3
Consumer other:						
Marine	49		49	10		55
Other	1		1			1
Total consumer other	50		50	10		56
Total consumer loans	132		133	32		122
Total loans with an allowance recorded	157		171	42		155
Total	\$ 358		\$ 495	\$ 42		\$ 385

(a) The Recorded Investment represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

(b) The Unpaid Principal Balance represents the customer's legal obligation to us. For the years ended December 31, 2015, December 31, 2014, and December 31, 2013, interest income recognized on the outstanding balances of accruing impaired loans totaled \$6 million, \$7 million, and \$6 million, respectively.

At December 31, 2015, aggregate restructured loans (accrual and nonaccrual loans) totaled \$280 million, compared to \$270 million at December 31, 2014, and \$338 million at December 31, 2013. During 2015, we added \$99 million in restructured loans, which were partially offset by \$89 million in payments and charge-offs.

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During 2014, we added \$93 million in restructured loans, which were offset by \$161 million in payments and charge-offs. During 2013, we added \$182 million in restructured loans, which were partially offset by \$164 million in payments and charge-offs.

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

December 31, 2015	Number	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<i>dollars in millions</i>	of Loans		
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	12	\$ 56	\$ 45
Commercial real estate:			
Real estate commercial mortgage	12	30	7
Total commercial real estate loans	12	30	7
Total commercial loans	24	86	52
Real estate residential mortgage	366	23	23
Home equity:			
Key Community Bank	1,138	82	73
Other	124	3	3
Total home equity loans	1,262	85	76
Consumer other Key Community Bank	28	1	1
Credit cards	339	2	2
Consumer other:			
Marine	86	6	5
Other	17		
Total consumer other	103	6	5
Total consumer loans	2,098	117	107
Total nonperforming TDRs	2,122	203	159
Prior-year accruing: ^(a)			
Commercial, financial and agricultural	7	5	2
Total commercial loans	7	5	2
Real estate residential mortgage	489	34	34
Home equity:			
Key Community Bank	760	48	41
Other	311	9	8
Total home equity loans	1,071	57	49
Consumer other Key Community Bank	42	2	2
Credit cards	461	4	2
Consumer other:			
Marine	371	57	31
Other	59	2	1
Total consumer other	430	59	32

Total consumer loans	2,493		156		119
Total prior-year accruing TDRs	2,500		161		121
Total TDRs	4,622	\$	364	\$	280

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

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2014, follows:

December 31, 2014	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<i>dollars in millions</i>			
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	14	\$ 25	\$ 23
Commercial real estate:			
Real estate commercial mortgage	10	38	13
Real estate construction	1	5	
Total commercial real estate loans	11	43	13
Total commercial loans	25	68	36
Real estate residential mortgage	453	27	27
Home equity:			
Key Community Bank	1,184	79	72
Other	158	4	4
Total home equity loans	1,342	83	76
Consumer other Key Community Bank	37	2	1
Credit cards	290	2	2
Consumer other:			
Marine	206	17	14
Other	38	1	1
Total consumer other	244	18	15
Total consumer loans	2,366	132	121
Total nonperforming TDRs	2,391	200	157
Prior-year accruing: ^(a)			
Commercial, financial and agricultural	20	6	3
Commercial real estate:			
Real estate commercial mortgage	1	2	1
Total commercial real estate loans	1	2	1
Total commercial loans	21	8	4
Real estate residential mortgage	381	29	29
Home equity:			
Key Community Bank	674	41	36
Other	310	9	8
Total home equity loans	984	50	44
Consumer other Key Community Bank	45	2	2
Credit cards	514	4	2
Consumer other:			
Marine	373	54	31
Other	67	2	1
Total consumer other	440	56	32
Total consumer loans	2,364	141	109

Total prior-year accruing TDRs	2,385		149		113
Total TDRs	4,776	\$	349	\$	270

(a) All TDRs that were restructured prior to January 1, 2014, and are fully accruing.

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A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2013, follows:

December 31, 2013	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<i>dollars in millions</i>			
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	33	\$ 72	\$ 34
Commercial real estate:			
Real estate commercial mortgage	11	41	14
Real estate construction	6	19	4
Total commercial real estate loans	17	60	18
Total commercial loans	50	132	52
Real estate residential mortgage	676	43	43
Home equity:			
Key Community Bank	1,708	91	86
Other	227	6	6
Total home equity loans	1,935	97	92
Consumer other Key Community Bank	49	2	1
Credit cards	629	5	4
Consumer other:			
Marine	360	24	21
Other	50	1	1
Total consumer other	410	25	22
Total consumer loans	3,699	172	162
Total nonperforming TDRs	3,749	304	214
Prior-year accruing: ^(a)			
Commercial, financial and agricultural	50	7	3
Commercial real estate:			
Real estate commercial mortgage	4	18	10
Real estate construction	1	23	42
Total commercial real estate loans	5	41	52
Total commercial loans	55	48	55
Real estate residential mortgage	119	12	12
Home equity:			
Key Community Bank	161	17	17
Other	212	7	6
Total home equity loans	373	24	23
Consumer other Key Community Bank	31	1	1
Credit cards	240	2	1
Consumer other:			
Marine	272	51	31
Other	54	1	1
Total consumer other	326	52	32

Total consumer loans	1,089		91		69
Total prior-year accruing TDRs	1,144		139		124
Total TDRs	4,893	\$	443	\$	338

(a) All TDRs that were restructured prior to January 1, 2013, and are fully accruing.

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are individually evaluated for impairment to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. This designation has the effect of moving the loan from the general reserve methodology (i.e., collectively evaluated) to the specific reserve methodology (i.e., individually evaluated) and may impact the ALLL through a charge-off or increased loan loss provision. These components affect the ultimate allowance level. Additional information regarding TDRs for discontinued operations is provided in Note 13 (Acquisitions and Discontinued Operations).

Commercial loan TDRs are considered defaulted when principal and interest payments are 90 days past due. Consumer loan TDRs are considered defaulted when principal and interest payments are more than 60 days past

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due. During the year ended December 31, 2015, there were two commercial loan TDRs with a combined recorded investment of \$1 million and 269 consumer loan TDRs with a combined recorded investment of \$12 million that experienced payment defaults after modifications resulting in TDR status during 2014. During the year ended December 31, 2014, there were four commercial loan TDRs with a combined recorded investment of \$11 million and 441 consumer loan TDRs with a combined recorded investment of \$15 million that experienced payment defaults after modifications resulting in TDR status during 2013. During the year ended December 31, 2013, there were no significant commercial loan TDRs, and 672 consumer loan TDRs with a combined recorded investment of \$31 million that experienced payment defaults after modifications resulting in TDR status during 2012. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the ALLL.

Our loan modifications are handled on a case-by-case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet the borrower's financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. The commercial TDR other concession category includes modification of loan terms, covenants, or conditions. The consumer TDR other concession category primarily includes those borrowers' debts that are discharged through Chapter 7 bankruptcy and have not been formally re-affirmed.

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

<i>in millions</i>	2015	2014	2013
Commercial loans:			
Interest rate reduction	\$ 51	\$ 13	\$ 95
Forgiveness of principal	2	2	5
Other	1	25	7
Total	\$ 54	\$ 40	\$ 107
Consumer loans:			
Interest rate reduction	\$ 132	\$ 140	\$ 130
Forgiveness of principal	8	4	5
Other	86	86	96
Total	\$ 226	\$ 230	\$ 231
Total commercial and consumer TDRs^(a)	\$ 280	\$ 270	\$ 338
Total loans	59,876	57,381	54,457

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are \$9 million, \$5 million, and \$15 million at December 31, 2015, December 31, 2014, and December 31, 2013, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans.

At December 31, 2015, approximately \$59.2 billion, or 98.9%, of our total loans were current, compared to \$56.6 billion, or 98.7%, at December 31, 2014. At December 31, 2015, total past due loans and nonperforming loans of \$667 million represented approximately 1.1% of total loans, compared to \$749 million, or 1.3%, at December 31, 2014.

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The following aging analysis of past due and current loans as of December 31, 2015, and December 31, 2014, provides further information regarding Key's credit exposure.

December 31, 2015	Current	30-59	60-89	90 and Greater	Nonperforming Loans	Total Past Due and Nonperforming Loans	Purchased Credit Impaired	Total Loans
		Days Past Due	Days Past Due	Days Past Due				
<i>in millions</i>								
LOAN TYPE								
Commercial, financial and agricultural	\$ 31,116	\$ 11	\$ 11	\$ 20	\$ 82	\$ 124		\$ 31,240
Commercial real estate:								
Commercial mortgage	7,917	8	5	10	19	42		7,959
Construction	1,042	1	1		9	11		1,053
Total commercial real estate loans	8,959	9	6	10	28	53		9,012
Commercial lease financing	3,952	33	11	11	13	68		4,020
Total commercial loans	\$ 44,027	\$ 53	\$ 28	\$ 41	\$ 123	\$ 245		\$ 44,272
Real estate residential mortgage	\$ 2,149	\$ 14	\$ 3	\$ 2	\$ 64	\$ 83	\$ 10	\$ 2,242
Home equity:								
Key Community Bank	9,863	46	22	13	182	263	1	10,127
Other	193	4	2	1	8	15		208
Total home equity loans	10,056	50	24	14	190	278	1	10,335
Consumer other Key								
Community Bank	1,580	10	3	5	2	20		1,600
Credit cards	785	6	4	9	2	21		806
Consumer other:								
Marine	565	8	3	1	6	18		583
Other	36	1	1			2		38
Total consumer other	601	9	4	1	6	20		621
Total consumer loans	\$ 15,171	\$ 89	\$ 38	\$ 31	\$ 264	\$ 422	\$ 11	\$ 15,604
Total loans	\$ 59,198	\$ 142	\$ 66	\$ 72	\$ 387	\$ 667	\$ 11	\$ 59,876

December 31, 2014	Current	30-59	60-89	90 and Greater	Nonperforming	Total	Purchased	Total
<i>in millions</i>		Days Past Due	Days Past Due	Days Past Due	Loans	Past Due and Nonperforming	Credit Impaired	Loans

Loans									
LOAN TYPE									
Commercial, financial and agricultural	\$ 27,858	\$ 19	\$ 14	\$ 32	\$ 59	\$ 124			\$ 27,982
Commercial real estate:									
Commercial mortgage	7,981	6	10	16	34	66			8,047
Construction	1,084	2		1	13	16			1,100
Total commercial real estate loans	9,065	8	10	17	47	82			9,147
Commercial lease financing	4,172	30	21	11	18	80			4,252
Total commercial loans	\$ 41,095	\$ 57	\$ 45	\$ 60	\$ 124	\$ 286			\$ 41,381
Real estate residential mortgage	\$ 2,111	\$ 12	\$ 7	\$ 4	\$ 79	\$ 102	\$ 12		\$ 2,225
Home equity:									
Key Community Bank	10,098	46	22	14	185	267	1		10,366
Other	249	5	2	1	10	18			267
Total home equity loans	10,347	51	24	15	195	285	1		10,633
Consumer other Key Community Bank	1,541	9	3	5	2	19			1,560
Credit cards	733	6	4	9	2	21			754
Consumer other:									
Marine	746	11	5	2	15	33			779
Other	46	1		1	1	3			49
Total consumer other	792	12	5	3	16	36			828
Total consumer loans	\$ 15,524	\$ 90	\$ 43	\$ 36	\$ 294	\$ 463	\$ 13		\$ 16,000
Total loans	\$ 56,619	\$ 147	\$ 88	\$ 96	\$ 418	\$ 749	\$ 13		\$ 57,381

The prevalent risk characteristic for both commercial and consumer loans is the risk of loss arising from an obligor's inability or failure to meet contractual payment or performance terms. Evaluation of this risk is stratified and monitored by the loan risk rating grades assigned for the commercial loan portfolios and the regulatory risk ratings assigned for the consumer loan portfolios.

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Most extensions of credit are subject to loan grading or scoring. Loan grades are assigned at the time of origination, verified by credit risk management, and periodically re-evaluated thereafter. This risk rating methodology blends our judgment with quantitative modeling. Commercial loans generally are assigned two internal risk ratings. The first rating reflects the probability that the borrower will default on an obligation; the second rating reflects expected recovery rates on the credit facility. Default probability is determined based on, among other factors, the financial strength of the borrower, an assessment of the borrower's management, the borrower's competitive position within its industry sector, and our view of industry risk in the context of the general economic outlook. Types of exposure, transaction structure, and collateral, including credit risk mitigants, affect the expected recovery assessment.

Credit quality indicators for loans are updated on an ongoing basis. Bond rating classifications are indicative of the credit quality of our commercial loan portfolios and are determined by converting our internally assigned risk rating grades to bond rating categories. Payment activity and the regulatory classifications of pass and substandard are indicators of the credit quality of our consumer loan portfolios.

Credit quality indicators for our commercial and consumer loan portfolios, excluding \$11 million and \$13 million of PCI loans at December 31, 2015, and December 31, 2014, respectively, based on bond rating, regulatory classification, and payment activity as of December 31, 2015, and December 31, 2014, are as follows:

Commercial Credit Exposure**Credit Risk Profile by Creditworthiness Category ^(a)**

Commercial, financial and agricultural		RE	Commercial	RE	Construction	Commercial Lease		
2015	2014	2015	2014	2015	2014	2015	2014	2015
384	\$ 311	\$ 7	\$ 2		\$ 1	\$ 503	\$ 513	\$ 894
1,475	1,272	2	1			509	608	1,986
27,321	24,949	7,492	7,527	\$ 920	956	2,858	2,952	38,591
740	686	301	287	86	105	99	112	1,220
1,320	764	157	230	47	38	51	67	1,575
31,240	\$ 27,982	\$ 7,959	\$ 8,047	\$ 1,053	\$ 1,100	\$ 4,020	\$ 4,252	\$ 44,272

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

(b) Our bond rating to internal loan grade conversion system is as follows: AAA - AA = 1, A = 2, BBB - BB = 3 - 13, B = 14 - 16, and CCC - C = 17 - 20.

(c) Our internal loan grade to regulatory-defined classification is as follows: Pass = 1-16, Special Mention = 17, Substandard = 18, Doubtful = 19, and Loss = 20.

Consumer Credit Exposure

Credit Risk Profile by Regulatory Classifications ^{(a), (b)}

December 31,

in millions

	Residential	Prime
GRADE	2015	2014
Pass	\$ 12,296	\$ 12,552
Substandard	270	293
Total	\$ 12,566	\$ 12,845

Table of Contents**Credit Risk Profile Based on Payment Activity ^(a)**

December 31,	Consumer Key Community Bank		Credit cards		Consumer Marine		Consumer Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Performing	\$ 1,598	\$ 1,558	\$ 804	\$ 752	\$ 577	\$ 764	\$ 38	\$ 48	\$ 3,017	\$ 2,914
Nonperforming	2	2	2	2	6	15		1	10	10
	\$ 1,600	\$ 1,560	\$ 806	\$ 754	\$ 583	\$ 779	\$ 38	\$ 49	\$ 3,027	\$ 2,924

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

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

We determine the appropriate level of the ALLL on at least a quarterly basis. The methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of qualitative factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

In the third quarter of 2015, we enhanced the approach used to determine the commercial reserve factors used in estimating the commercial ALLL, which had the effect of capturing certain elements in the commercial quantitative reserve component that had formerly been included in the commercial qualitative component. Under the enhanced methodology, we began utilizing more refined commercial estimated loss rates that represent cumulative losses over the estimated average time period from the onset of credit deterioration to the initial loss recorded for an individual loan. In addition, we began utilizing an enhanced framework to quantify commercial ALLL adjustments resulting from qualitative factors that may not be fully captured within the statistical analysis of incurred loss. The impact of these changes was largely neutral to the total ALLL. However, because the quantitative reserve is allocated to the business segments at a loan level, while the qualitative portion is allocated at the portfolio level, the impact of the methodology enhancements on the allowance for each portfolio caused the commercial portfolio ALLL to increase or decrease accordingly. The impact of the increases and decreases on the commercial portfolio ALLL was not significant.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance of \$2.5 million or greater, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of the individual impairment for commercial loans and TDRs by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Non-Chapter 7 consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using

the loan's effective interest rate. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at December 31, 2015, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

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

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At December 31, 2015, the ALLL was \$796 million, or 1.33% of loans, compared to \$794 million, or 1.38% of loans, at December 31, 2014. At December 31, 2015, the ALLL was 205.7% of nonperforming loans, compared to 190.0% at December 31, 2014.

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

December 31,

<i>in millions</i>		2015	2014	2013
Balance at beginning of period continuing operations	\$	794	\$ 848	\$ 888
Charge-offs		(203)	(211)	(308)
Recoveries		61	98	140
Net loans and leases charged off		(142)	(113)	(168)
Provision for loan and lease losses from continuing operations		145	59	130
Foreign currency translation adjustment		(1)		(2)
Balance at end of period continuing operations	\$	796	\$ 794	\$ 848

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

<i>in millions</i>	December 31,				December 31,	
	2014	Provision	Charge-offs	Recoveries	2015	
Commercial, financial and agricultural	\$ 391	\$ 120	\$ (77)	\$ 16	\$ 450	
Real estate commercial mortgage	148	(16)	(4)	6	134	
Real estate construction	28	(3)	(1)	1	25	
Commercial lease financing	56	(5)	(11)	7	47	
Total commercial loans	623	96	(93)	30	656	
Real estate residential mortgage	23	(2)	(6)	3	18	
Home equity:						
Key Community Bank	66	8	(26)	7	55	
Other	5	(1)	(6)	4	2	
Total home equity loans	71	7	(32)	11	57	
Consumer other Key Community Bank	22	16	(24)	6	20	
Credit cards	33	27	(30)	2	32	
Consumer other:						
Marine	21		(17)	8	12	
Other	1		(1)	1	1	
Total consumer other:	22		(18)	9	13	
Total consumer loans	171	48	(110)	31	140	
Total ALLL continuing operations	794	144 ^(a)	(203)	61	796	

Discontinued operations		29		21		(35)		13		28
Total ALLL including discontinued operations	\$	823	\$	165	\$	(238)	\$	74	\$	824

(a) Includes a \$1 million foreign currency translation adjustment. Excludes a provision for losses on lending-related commitments of \$21 million.

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<i>in millions</i>	December 31, 2013	Provision	Charge-offs	Recoveries	December 31, 2014
Commercial, financial and agricultural	\$ 362	\$ 41	\$ (45)	\$ 33	\$ 391
Real estate commercial mortgage	165	(15)	(6)	4	148
Real estate construction	32	(16)	(5)	17	28
Commercial lease financing	62	(6)	(10)	10	56
Total commercial loans	621	4	(66)	64	623
Real estate residential mortgage	37	(6)	(10)	2	23
Home equity:					
Key Community Bank	84	10	(37)	9	66
Other	11	(2)	(9)	5	5
Total home equity loans	95	8	(46)	14	71
Consumer other Key Community Bank	29	17	(30)	6	22
Credit cards	34	32	(34)	1	33
Consumer other:					
Marine	29	6	(23)	9	21
Other	3	(2)	(2)	2	1
Total consumer other:	32	4	(25)	11	22
Total consumer loans	227	55	(145)	34	171
Total ALLL continuing operations	848	59 ^(a)	(211)	98	794
Discontinued operations	39	21	(45)	14	29
Total ALLL including discontinued operations	\$ 887	\$ 80	\$ (256)	\$ 112	\$ 823

(a) Excludes a credit for losses on lending-related commitments of \$2 million.

<i>in millions</i>	December 31, 2012	Provision	Charge-offs	Recoveries	December 31, 2013
Commercial, financial and agricultural	\$ 327	\$ 58	\$ (62)	\$ 39	\$ 362
Real estate commercial mortgage	198	(40)	(20)	27	165
Real estate construction	41	(20)	(3)	14	32
Commercial lease financing	55	19	(27)	15	62
Total commercial loans	621	17	(112)	95	621
Real estate residential mortgage	30	25	(20)	2	37
Home equity:					
Key Community Bank	105	31	(62)	10	84
Other	25		(20)	6	11
Total home equity loans	130	31	(82)	16	95

Consumer other	Key					
Community Bank		38	15	(31)	7	29
Credit cards		26	35	(30)	3	34
Consumer other:						
Marine		39	4	(29)	15	29
Other		4	1	(4)	2	3
Total consumer other:		43	5	(33)	17	32
Total consumer loans		267	111	(196)	45	227
Total ALLL continuing operations		888	128(a)	(308)	140	848
Discontinued operations		55	21	(55)	18	39
Total ALLL including discontinued operations		\$ 943	\$ 149	\$ (363)	\$ 158	\$ 887

(a) Includes a \$2 million foreign currency translation adjustment.

Our ALLL from continuing operations remained relatively stable, increasing by \$2 million, or .3%, since 2014. Our allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors, such as changes in economic conditions, underwriting standards, and concentrations of credit. Our commercial ALLL increased by \$33 million, or 5.3%, since 2014 primarily because of loan growth and increased incurred loss estimates. The increase in these incurred loss estimates during 2015 was primarily due to the continued decline in oil and gas prices since 2014. Partially offsetting this increase was a decrease in our consumer ALLL of \$31 million, or 18.1%, since 2014. Our consumer ALLL decrease was primarily due to continued improvement in credit metrics, such as delinquency,

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average credit bureau score, and loan to value, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics since 2014 was primarily due to continued improved credit quality and benefits of relatively stable economic conditions.

For continuing operations, the loans outstanding individually evaluated for impairment totaled \$308 million, with a corresponding allowance of \$35 million at December 31, 2015. Loans outstanding collectively evaluated for impairment totaled \$59.6 billion, with a corresponding allowance of \$760 million at December 31, 2015. At December 31, 2015, PCI loans evaluated for impairment totaled \$11 million, with a corresponding allowance of \$1 million. There was no provision for loan and lease losses on these PCI loans during the year ended December 31, 2015. At December 31, 2014, the loans outstanding individually evaluated for impairment totaled \$302 million, with a corresponding allowance of \$40 million. Loans outstanding collectively evaluated for impairment totaled \$57.1 billion, with a corresponding allowance of \$753 million at December 31, 2014. At December 31, 2014, PCI loans evaluated for impairment totaled \$13 million, with a corresponding allowance of \$1 million. There was no provision for loan and lease losses on these PCI loans during the year ended December 31, 2014. At December 31, 2013, PCI loans evaluated for impairment totaled \$16 million, with a corresponding allowance of \$1 million. There was no provision for loan and lease losses on these PCI loans during the year ended December 31, 2013.

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

<i>in millions</i>	December 31, 2015			Outstanding			Purchased Credit Impaired
	Individually Evaluated for Impairment	Allowance Collectively Evaluated for Impairment	Purchased Credit Impaired	Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
Commercial, financial and agricultural	\$ 7	\$ 443		\$ 31,240	\$ 68	\$ 31,172	
Commercial real estate:							
Commercial mortgage	1	133		7,959	10	7,949	
Construction		25		1,053	5	1,048	
Total commercial real estate loans	1	158		9,012	15	8,997	
Commercial lease financing		47		4,020		4,020	
Total commercial loans	8	648		44,272	83	44,189	
Real estate residential mortgage	4	13	\$ 1	2,242	56	2,176	\$ 10
Home equity:							
Key Community Bank	19	36		10,127	114	10,012	1
Other	1	1		208	11	197	
Total home equity loans	20	37		10,335	125	10,209	1

Consumer other									
Key Community									
Bank		20		1,600		3		1,597	
Credit cards		32		806		3		803	
Consumer other:									
Marine	3	9		583		37		546	
Other		1		38		1		37	
Total consumer									
other	3	10		621		38		583	
Total consumer									
loans	27	112	1	15,604		225		15,368	11
Total ALLL									
continuing									
operations	35	760	1	59,876		308		59,557	11
Discontinued									
operations	2	26		1,828 ^(a)		21		1,807 ^(a)	
Total ALLL									
including									
discontinued									
operations	\$ 37	\$ 786	\$ 1	\$ 61,704	\$ 329	\$ 61,364	\$ 11		

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

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2014, follows:

<i>in millions</i>	December 31, 2014 Individually Evaluated for Impairment	Allowance Collectively Evaluated for Impairment	Purchased Credit Impaired	Loans	Outstanding Individually Evaluated for Impairment	Outstanding Collectively Evaluated for Impairment	Purchased Credit Impaired
Commercial, financial and agricultural	\$ 9	\$ 382		\$ 27,982	\$ 43	\$ 27,939	
Commercial real estate:							
Commercial mortgage	2	146		8,047	21	8,025	
Construction	1	27		1,100	8	1,092	
Total commercial real estate loans	3	173		9,147	29	9,117	
Commercial lease financing		56		4,252		4,252	
Total commercial loans	12	611		41,381	72	41,308	
Real estate residential mortgage	5	17	\$ 1	2,225	55	2,159	\$ 12
Home equity:							
Key Community Bank	16	50		10,366	108	10,257	1
Other	2	3		267	12	255	
Total home equity loans	18	53		10,633	120	10,512	1
Consumer other:							
Key Community Bank		22		1,560	4	1,556	
Credit cards		33		754	4	750	
Marine	5	16		779	45	734	
Other		1		49	2	47	
Total consumer other	5	17		828	47	781	
Total consumer loans	28	142	1	16,000	230	15,758	13
Total ALLL continuing operations	40	753	1	57,381	302	57,066	13
Discontinued operations	1	28		2,295 ^(a)	17	2,278 ^(a)	
	\$ 41	\$ 781	\$ 1	\$ 59,676	\$ 319	\$ 59,344	\$ 13

Total ALLL
including
discontinued
operations

(a) Amount includes \$191 million of loans carried at fair value that are excluded from ALLL consideration. The liability for credit losses inherent in lending-related unfunded commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments was \$56 million at December 31, 2015. When combined with our ALLL, our total allowance for credit losses represented 1.42% of loans at December 31, 2015, compared to 1.44% at December 31, 2014.

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

Year ended December 31,

<i>in millions</i>	2015	2014	2013
Balance at beginning of period	\$ 35	\$ 37	\$ 29
Provision (credit) for losses on lending-related commitments	21	(2)	8
Balance at end of period	\$ 56	\$ 35	\$ 37

6. Fair Value Measurements

Fair Value Determination

As defined in the applicable accounting guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in our principal market. We have established and documented our process for determining the fair values of our assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using

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valuation models or third-party pricing services. Both of these approaches rely on market-based parameters, when available, such as interest rate yield curves, option volatilities, and credit spreads, or unobservable inputs. Unobservable inputs may be based on our judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

Valuation adjustments, such as those pertaining to counterparty and our own credit quality and liquidity, may be necessary to ensure that assets and liabilities are recorded at fair value. Credit valuation adjustments are made when market pricing does not accurately reflect the counterparty's or our own credit quality. We make liquidity valuation adjustments to the fair value of certain assets to reflect the uncertainty in the pricing and trading of the instruments when we are unable to observe recent market transactions for identical or similar instruments. Liquidity valuation adjustments are based on the following factors:

- the amount of time since the last relevant valuation;
- whether there is an actual trade or relevant external quote available at the measurement date; and
- volatility associated with the primary pricing components.

We ensure that our fair value measurements are accurate and appropriate by relying upon various controls, including:

- an independent review and approval of valuation models and assumptions;
- recurring detailed reviews of profit and loss; and

- a validation of valuation model components against benchmark data and similar products, where possible.

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process. Various Working Groups that report to the Fair Value Committee analyze and approve the underlying assumptions and valuation adjustments. Changes in valuation methodologies for Level 1 and Level 2 instruments are presented to the Accounting Policy group for approval. Changes in valuation methodologies for Level 3 instruments are presented to the Fair Value Committee for approval. The Working Groups are discussed in more detail in the qualitative disclosures within this note and in Note 13 (Acquisitions and Discontinued Operations). Formal documentation of the fair valuation methodologies is prepared by the lines of business and support areas as appropriate. The documentation details the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level, market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements.

Qualitative Disclosures of Valuation Techniques

Loans. Most loans recorded as trading account assets are valued based on market spreads for similar assets since they are actively traded. Therefore, these loans are classified as Level 2 because the fair value recorded is based on observable market data for similar assets.

Securities (trading and available for sale). We own several types of securities, requiring a range of valuation methods:

- ⌚ Securities are classified as Level 1 when quoted market prices are available in an active market for the identical securities. Level 1 instruments include exchange-traded equity securities.

- ⌚ Securities are classified as Level 2 if quoted prices for identical securities are not available, and fair value is determined using pricing models (either by a third-party pricing service or internally) or quoted prices of

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similar securities. These instruments include municipal bonds; bonds backed by the U.S. government; corporate bonds; certain mortgage-backed securities; securities issued by the U.S. Treasury; money markets; and certain agency and corporate CMOs. Inputs to the pricing models include: standard inputs, such as yields, benchmark securities, bids, and offers; actual trade data (i.e., spreads, credit ratings, and interest rates) for comparable assets; spread tables; matrices; high-grade scales; and option-adjusted spreads.

- ⌚ Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. To determine fair value in such cases, depending on the complexity of the valuations required, we use internal models based on certain assumptions or a third-party valuation service. At December 31, 2015, our Level 3 instruments consist of two convertible preferred securities. Our Strategy group is responsible for reviewing the valuation model and determining the fair value of these investments on a quarterly basis. The securities are valued using a cash flow analysis of the associated private company issuers. The valuations of the securities are negatively impacted by projected net losses of the associated private companies and positively impacted by projected net gains. The fair values of our Level 2 securities available for sale are determined by a third-party pricing service. The valuations provided by the third-party pricing service are based on observable market inputs, which include benchmark yields, reported trades, issuer spreads, benchmark securities, bids, offers, and reference data obtained from market research publications. Inputs used by the third-party pricing service in valuing CMOs and other mortgage-backed securities also include new issue data, monthly payment information, whole loan collateral performance, and To Be Announced prices. In valuations of securities issued by state and political subdivisions, inputs used by the third-party pricing service also include material event notices.

On a monthly basis, we validate the pricing methodologies utilized by our third-party pricing service to ensure the fair value determination is consistent with the applicable accounting guidance and that our assets are properly classified in the fair value hierarchy. To perform this validation, we:

- ⌚ review documentation received from our third-party pricing service regarding the inputs used in their valuations and determine a level assessment for each category of securities;
- ⌚ substantiate actual inputs used for a sample of securities by comparing the actual inputs used by our third-party pricing service to comparable inputs for similar securities; and
- ⌚ substantiate the fair values determined for a sample of securities by comparing the fair values provided by our third-party pricing service to prices from other independent sources for the same and similar securities. We analyze variances and conduct additional research with our third-party pricing service and take appropriate steps based on our findings.

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

Private equity and mezzanine investments are classified as Level 3 assets since our judgment significantly influences the determination of fair value. Our Fund Management, Asset Management, and Accounting groups are responsible for reviewing the valuation models and determining the fair value of these investments on a quarterly basis. Direct investments in properties are initially valued based upon the transaction price. This amount is then adjusted to fair value based on current market conditions using the discounted cash flow method based on the expected investment exit date. The fair values of the assets are reviewed and adjusted quarterly. There were no significant direct equity and mezzanine investments at December 31, 2015, and December 31, 2014.

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Consistent with accounting guidance, indirect investments are valued using a methodology that allows the use of statements from the investment manager to calculate net asset value per share. A primary input used in estimating fair value is the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment's fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of December 31, 2015, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology. For more information about the Volcker Rule, see the discussion under the heading "Other Regulatory Developments under the Dodd-Frank Act - Volcker Rule" in the section entitled "Supervision and Regulation" in Item 1 of this report.

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

The following table presents the fair value of our indirect investments and related unfunded commitments at December 31, 2015. We did not provide any financial support to investees related to our direct and indirect investments for the years ended December 31, 2015, and December 31, 2014.

December 31, 2015

<i>in millions</i>	Fair Value	Unfunded Commitments
INVESTMENT TYPE		
Indirect investments		
Passive funds ^(a)	\$ 8	\$ 1
Total	\$ 8	\$ 1

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

Principal investments. Principal investments consist of investments in equity and debt instruments made by our principal investing entities. They include direct investments (investments made in a particular company) and indirect investments (investments made through funds that include other investors). Our principal investing entities are accounted for as investment companies in accordance with the applicable accounting guidance, whereby each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period's earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (individuals from one of the independent investment managers who oversee these instruments), accounting staff, and

the Investment Committee (individual employees and a former employee of Key and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

Our direct investments include investments in debt and equity instruments of both private and public companies. When quoted prices are available in an active market for the identical direct investment, we use the quoted prices in the valuation process, and the related investments are classified as Level 1 assets. The valuation of our Level 2 investment includes a quoted price, which is adjusted by liquidity assumptions due to a contractual term of the investment. In most cases, quoted market prices are not available for our direct investments, and we must perform valuations using other methods. These direct investment valuations are an in-depth analysis of the condition of each investment and are based on the unique facts and circumstances related to each individual

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investment. There is a certain amount of subjectivity surrounding the valuation of these investments due to the combination of quantitative and qualitative factors that are used in the valuation models. Therefore, these direct investments are classified as Level 3 assets. The specific inputs used in the valuations of each type of direct investment are described below.

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

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

Our indirect investments are classified as Level 3 assets since our significant inputs are not observable in the marketplace. Indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of December 31, 2015, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology.

For indirect investments, management may make adjustments it deems appropriate to the net asset value if it is determined that the net asset value does not properly reflect fair value. In determining the need for an adjustment to net asset value, management performs an analysis of the private equity funds based on the independent fund manager's valuations as well as management's own judgment. Significant unobservable inputs used in these analyses include current fund financial information provided by the fund manager, an estimate of future proceeds expected to be received on the investment, and market multiples. Management also considers whether the independent fund manager adequately marks down an impaired investment, maintains financial statements in accordance with GAAP, or follows a practice of holding all investments at cost.

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The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at December 31, 2015, as well as financial support provided for the years ended December 31, 2015, and December 31, 2014.

<i>in millions</i>	December 31, 2015		Financial support provided Year ended December 31,			
	Fair Value	Unfunded Commitments	2015		2014	
			Funded Commitments	Funded Other	Funded Commitments	Funded Other
INVESTMENT TYPE						
Direct investments ^(a)	\$ 69		\$ 8	\$ 2		\$ 3
Indirect investments ^(b)	235	\$ 50	\$ 8		\$ 11	
Total	\$ 304	\$ 50	\$ 8	\$ 2	\$ 11	\$ 3

(a) Our direct investments consist of equity and debt investments directly in independent business enterprises. Operations of the business enterprises are handled by management of the portfolio company. The purpose of funding these enterprises is to provide financial support for business development and acquisition strategies. We infuse equity capital based on an initial contractual cash contribution and later from additional requests on behalf of the companies' management.

(b) Our indirect investments consist of buyout funds, venture capital funds, and fund of funds. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds typically can be sold only with the approval of the fund's general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to nine years. The purpose of funding our capital commitments to these investments is to allow the funds to make additional follow-on investments and pay fund expenses until the fund dissolves. We, and all other investors in the fund, are obligated to fund the full amount of our respective capital commitments to the fund based on our and their respective ownership percentages, as noted in the applicable Limited Partnership Agreement.

Other. We had one indirect equity investment in the form of limited partnership units representing less than a five percent ownership interest in the equity. The investment was classified as a Level 3 asset since our significant inputs were not observable in the marketplace. This investment was valued using a methodology that was consistent with accounting guidance that allowed us to estimate fair value based upon net asset value per share (or its equivalent, such as an ownership interest in partners' capital to which a proportionate share of net asset is attributed). The significant unobservable input used in estimating fair value was primarily the most recent value of the capital account as reported by the general partner of the partnership in which we invested. Under the requirements of the Volcker Rule, we were required to dispose of this investment. Prior to December 31, 2015, the investment was redeemed. Additional information pertaining to the equity investment is included in the Changes in Level 3 Fair Value Measurements section of this Note.

Derivatives. Exchange-traded derivatives are valued using quoted prices and, therefore, are classified as Level 1 instruments. However, only a few types of derivatives are exchange-traded. The majority of our derivative positions are valued using internally developed models based on market convention that use observable market inputs, such as

interest rate curves, yield curves, LIBOR and Overnight Index Swap (OIS) discount rates and curves, index pricing curves, foreign currency curves, and volatility surfaces (a three-dimensional graph of implied volatility against strike price and maturity). These derivative contracts, which are classified as Level 2 instruments, include interest rate swaps, certain options, cross currency swaps, and credit default swaps.

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

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Level 3 derivatives is performed using a model that was acquired from a third party. In summary, the fair value represents an estimate of the amount that the risk participation counterparty would need to pay/receive as of the measurement date based on the probability of customer default on the swap transaction and the fair value of the underlying customer swap. Therefore, a higher loss probability and a lower credit rating would negatively affect the fair value of the risk participations and a lower loss probability and higher credit rating would positively affect the fair value of the risk participations.

Market convention implies a credit rating of AA equivalent in the pricing of derivative contracts, which assumes all counterparties have the same creditworthiness. To reflect the actual exposure on our derivative contracts related to both counterparty and our own creditworthiness, we record a fair value adjustment in the form of a credit valuation adjustment. The credit component is determined by individual counterparty based on the probability of default and considers master netting and collateral agreements. The credit valuation adjustment is classified as Level 3. Our MRM group is responsible for the valuation policies and procedures related to this credit valuation adjustment. A weekly reconciliation process is performed to ensure that all applicable derivative positions are covered in the calculation, which includes transmitting customer exposures and reserve reports to trading management, derivative traders and marketers, derivatives middle office, and corporate accounting personnel. On a quarterly basis, MRM prepares the credit valuation adjustment calculation, which includes a detailed reserve comparison with the previous quarter, an analysis for change in reserve, and a reserve forecast to ensure that the credit valuation adjustment recorded at period end is sufficient.

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

Table of Contents**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at December 31, 2015, and December 31, 2014.

December 31, 2015

<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		\$ 704		\$ 704
States and political subdivisions		25		25
Collateralized mortgage obligations				
Other mortgage-backed securities		26		26
Other securities	\$ 3	24		27
Total trading account securities	3	779		782
Commercial loans		6		6
Total trading account assets	3	785		788
Securities available for sale:				
States and political subdivisions		14		14
Collateralized mortgage obligations		11,995		11,995
Other mortgage-backed securities		2,189		2,189
Other securities	3		\$ 17	20
Total securities available for sale	3	14,198	17	14,218
Other investments:				
Principal investments:				
Direct		19	50	69
Indirect			235	235
Total principal investments		19	285	304
Equity and mezzanine investments:				
Direct				
Indirect			8	8
Total equity and mezzanine investments			8	8
Other				
Total other investments		19	293	312
Derivative assets:				
Interest rate		868	16	884
Foreign exchange	143	8		151
Commodity		444		444
Credit		4	2	6
Derivative assets	143	1,324	18	1,485
Netting adjustments ^(a)				(866)
Total derivative assets	143	1,324	18	619
Accrued income and other assets		1		1
Total assets on a recurring basis at fair value	\$ 149	\$ 16,327	\$ 328	\$ 15,938

LIABILITIES MEASURED ON A RECURRING BASIS

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

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

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<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations		\$ 555		\$ 555
States and political subdivisions		38		38
Collateralized mortgage obligations				
Other mortgage-backed securities		124		124
Other securities	\$ 2	29		31
Total trading account securities	2	746		748
Commercial loans				
Total trading account assets	2	748		750
Securities available for sale:				
States and political subdivisions		23		23
Collateralized mortgage obligations		11,270		11,270
Other mortgage-backed securities		2,035		2,035
Other securities	22		\$ 10	32
Total securities available for sale	22	13,328	10	13,360
Other investments:				
Principal investments:				
Direct	2		102	104
Indirect			302	302
Total principal investments	2		404	406
Equity and mezzanine investments:				
Direct				
Indirect			10	10
Total equity and mezzanine investments			10	10
Other				
Total other investments	2		418	420
Derivative assets:				
Interest rate		924	13	937
Foreign exchange	91	2		93
Commodity		608		608
Credit		2	3	5
Derivative assets	91	1,536	16	1,643
Netting adjustments ^(a)				(1,034)
Total derivative assets	91	1,536	16	609
Accrued income and other assets				
Total assets on a recurring basis at fair value	\$ 117	\$ 15,612	\$ 444	\$ 15,139

LIABILITIES MEASURED ON A RECURRING BASIS

Bank notes and other short-term borrowings:				
Short positions		\$ 423		\$ 423
Derivative liabilities:				
Interest rate		644		644
Foreign exchange	\$ 77	4		81

Commodity		594			594
Credit		6	\$	1	7
Derivative liabilities	77	1,248		1	1,326
Netting adjustments ^(a)					(542)
Total derivative liabilities	77	1,248		1	784
Accrued expense and other liabilities					
Total liabilities on a recurring basis at fair value	\$ 77	\$ 1,671	\$	1	\$ 1,207

- (a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

Table of Contents**Changes in Level 3 Fair Value Measurements**

The following table shows the change in the fair values of our Level 3 financial instruments for the years ended December 31, 2015, and December 31, 2014. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table. Therefore, the gains or losses shown do not include the impact of our risk management activities.

<i>in millions</i>	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Settlements	Transfers into Level 3	Transfers out of Level 3	End of Period Balance	Unrealized Gains (Losses) Included in Earnings
Year ended December 31, 2015								
Securities available for sale								
Other securities	\$ 10		\$ 7				\$ 17	
Other investments								
Principal investments								
Direct	102	\$ 23 (b)	5	\$ (61)		\$ (19) (e)	50	\$ 3 (b)
Indirect	302	30 (b)	6	(103)			235	(33) (b)
Equity and mezzanine investments								
Direct		2 (b)		(2)				2 (b)
Indirect	10	5 (b)		(7)			8	5 (b)
Other	4			\$ (4)				
Derivative instruments (a)								
Interest rate	13	2 (c)	1	(1)	\$ 10 (e)	(9) (e)	16	
Commodity								
Credit	2	(12) (c)			11		1	

<i>in millions</i>	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Settlements	Transfers into Level 3	Transfers out of Level 3	End of Period Balance	Unrealized Gains (Losses) Included in Earnings

Table of Contents**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally result from the application of accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment. There were no liabilities measured at fair value on a nonrecurring basis at December 31, 2015, and December 31, 2014. The following table presents our assets measured at fair value on a nonrecurring basis at December 31, 2015, and December 31, 2014:

<i>in millions</i>	December 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS								
Impaired loans							\$ 5	\$ 5
Loans held for sale ^(a)								
Accrued income and other assets			\$ 7	\$ 7			7	7
Total assets on a nonrecurring basis at fair value			\$ 7	\$ 7			\$ 12	\$ 12

(a) During 2015, we transferred \$62 million of commercial and consumer loans and leases at their current fair value from held-for-sale status to the held-to-maturity portfolio, compared to \$11 million during 2014.

Impaired loans. We typically adjust the carrying amount of our impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows, the fair value of the underlying collateral, or the loan's observable market price. Impaired loans with a specifically allocated allowance based on cash flow analysis or the value of the underlying collateral are classified as Level 3 assets. Impaired loans with a specifically allocated allowance based on an observable market price that reflects recent sale transactions for similar loans and collateral are classified as Level 2 assets.

The evaluations for impairment are prepared by the responsible relationship managers in our Asset Recovery Group and are reviewed and approved by the Asset Recovery Group Executive. The Asset Recovery Group is part of the Risk Management Group and reports to our Chief Credit Officer. These evaluations are performed in conjunction with the quarterly ALLL process.

Loans are evaluated for impairment on a quarterly basis. Loans included in the previous quarter's review are re-evaluated, and if their values have changed materially, the underlying information (loan balance and in most cases, collateral value) is compared. Material differences are evaluated for reasonableness, and the relationship managers and their senior managers consider these differences and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis based on current borrower developments, market conditions, and collateral values.

The following two internal methods are used to value impaired loans:

- ⌚ Cash flow analysis considers internally developed inputs, such as discount rates, default rates, costs of foreclosure, and changes in collateral values.

- ⌚ The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations, and assessments provided by third-party appraisers. We perform or reaffirm appraisals of collateral-dependent impaired loans at least annually. Appraisals may occur more frequently if the most recent appraisal does not accurately reflect the current market, the debtor is seriously delinquent or chronically past due, or there has been a material deterioration in the performance of the project or condition of the property. Adjustments to outdated appraisals that result in an appraisal value less than the carrying amount of a collateral-dependent impaired loan are reflected in the ALLL.

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Impairment valuations are back-tested each quarter, based on a look-back of actual incurred losses on closed deals previously evaluated for impairment. The overall percent variance of actual net loan charge-offs on closed deals compared to the specific allocations on such deals is considered in determining each quarter's specific allocations.

Loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming loans, we determine any adjustments necessary to record the portfolios at the lower of cost or fair value in accordance with GAAP. Our analysis concluded that there were no loans held for sale adjusted to fair value at December 31, 2015, or December 31, 2014.

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

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

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

Direct financing leases and operating lease assets held for sale. Our KEF Accounting and Capital Markets groups are responsible for the valuation policies and procedures related to these assets. The Managing Director of the KEF Capital Markets group reports to the President of the KEF line of business. A weekly report is distributed to both groups that lists all equipment finance deals booked in the warehouse portfolio. On a quarterly basis, the KEF Accounting group prepares a detailed held-for-sale roll-forward schedule that is reconciled to the general ledger and the above mentioned weekly report. KEF management uses the held-for-sale roll-forward schedule to determine if an impairment adjustment is necessary in accordance with lower of cost or fair value guidelines.

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. KEF has master sale and assignment agreements with numerous institutional investors. Historically, multiple quotes are obtained, with the most reasonable formal quotes retained. These nonbinding quotes generally lead to a sale to one of the parties who provided the quote. Leases for which we receive a current nonbinding bid, and the sale is considered probable, may be classified as Level 2. The validity of these quotes is supported by historical and continued dealings with these institutions that have fulfilled the nonbinding quote in the past. In a distressed market where market data is not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. KEF Accounting calculates an estimated

fair value buy rate based on the credit

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premium inherent in the relevant bond index and the appropriate swap rate on the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

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

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

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

Our primary assumptions include attrition rates, alternative costs of funds, and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10.

Other assets. OREO and other repossessed properties are valued based on inputs such as appraisals and third-party price opinions, less estimated selling costs. Generally, we classify these assets as Level 3, but OREO and other repossessed properties for which we receive binding purchase agreements are classified as Level 2. Returned lease inventory is valued based on market data for similar assets and is classified as Level 2. Assets that are acquired through, or in lieu of, loan foreclosures are recorded initially as held for sale at fair value less estimated selling costs at the date of foreclosure. After foreclosure, valuations are updated periodically, and current market conditions may require the assets to be marked down further to a new cost basis.

- ⌚ Commercial Real Estate Valuation Process: When a loan is reclassified from loan status to OREO because we took possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third-party sources, our OREO group also

writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, where the accepted price is lower than the current balance of the particular OREO asset. The fair value of OREO property is re-evaluated every 90 days, and the OREO asset is adjusted as necessary.

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

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reporting of all broker price opinion evaluations, appraisals, and the monthly market plans. Market plans are reviewed monthly, and valuations are reviewed and tested monthly to ensure proper pricing has been established and guidelines are being met. Risk Operations Compliance validates and provides periodic testing of the valuation process. The Asset Management team reviews changes in fair value measurements. Third-party broker price opinions are reviewed every 180 days, and the fair value is written down based on changes to the valuation. External factors are documented and monitored as appropriate.

Quantitative Information about Level 3 Fair Value Measurements

The range and weighted-average of the significant unobservable inputs used to fair value our material Level 3 recurring and nonrecurring assets at December 31, 2015, and December 31, 2014, along with the valuation techniques used, are shown in the following table:

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

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

December 31, 2014			Significant	Range
<i>dollars in millions</i>	Fair Value of	Valuation Technique	Unobservable Input	(Weighted-Average)
Level 3 Assets				
Recurring				
Other investments	principal \$ 102			
investments direct:		Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	5.40 - 6.00 (5.50)

Equity instruments of private companies			EBITDA multiple (where applicable)	5.50 - 6.20 (5.80)
			Revenue multiple (where applicable)	4.30 - 4.30 (4.30)
Nonrecurring				
Impaired loans	5	Fair value of underlying collateral	Discount	10.00 - 64.00% (62.00%)
Goodwill	1,057		Earnings multiple of peers	11.40 - 15.90 (12.92)
		Discounted cash flow and market data	Equity multiple of peers	1.20 - 1.22 (1.21)
			Control premium	10.00 - 30.00% (19.70%)
			Weighted-average cost of capital	13.00 - 14.00% (13.52%)

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The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at December 31, 2015, and December 31, 2014, are shown in the following table.

<i>in millions</i>	Carrying Amount	December 31, 2015 Fair Value			Netting Adjustment	Total
		Level 1	Level 2	Level 3		
ASSETS						
Cash and short-term investments ^(a)	\$ 3,314	\$ 3,314			\$	3,314
Trading account assets ^(b)	788	3	\$ 785			788
Securities available for sale ^(b)	14,218	3	14,198	\$ 17		14,218
Held-to-maturity securities ^(c)	4,897		4,848			4,848
Other investments ^(b)	655		19	636		655
Loans, net of allowance ^(d)	59,080			57,508		57,508
Loans held for sale ^(b)	639			639		639
Derivative assets ^(b)	619	143	1,324	18	\$ (866) ^(f)	619
LIABILITIES						
Deposits with no stated maturity ^(a)	\$ 65,527		\$ 65,527		\$	65,527
Time deposits ^(e)	5,519		5,575			5,575
Short-term borrowings ^(a)	905		533			533
Long-term debt ^(e)	10,186	\$ 9,987	420			10,407
Derivative liabilities ^(b)	632	116	1,009	\$ 1	\$ (494) ^(f)	632
December 31, 2014						
<i>in millions</i>		Level 1	Level 2	Fair Value Level 3	Netting	Total

	Carrying Amount		Adjustment		
ASSETS					
Cash and short-term investments ^(a)	\$ 4,922	\$ 4,922			\$ 4,922
Trading account assets ^(b)	750	2	\$ 748		750
Securities available for sale ^(b)	13,360	22	13,328	\$ 10	13,360
Held-to-maturity securities ^(c)	5,015		4,974		4,974
Other investments ^(b)	760	2		758	760
Loans, net of allowance ^(d)	56,587			54,993	54,993
Loans held for sale ^(b)	734			734	734
Derivative assets ^(b)	609	91	1,536	16	\$ (1,034) ^(f) 609
LIABILITIES					
Deposits with no stated maturity ^(a)	\$ 66,135		\$ 66,135		\$ 66,135
Time deposits ^(e)	5,863	\$ 564	5,361		5,925
Short-term borrowings ^(a)	998		998		998
Long-term debt ^(e)	7,875	7,625	626		8,251
Derivative liabilities ^(b)	784	77	1,248	\$ 1	\$ (542) ^(f) 784

Valuation Methods and Assumptions

- (a) Fair value equals or approximates carrying amount. The fair value of deposits with no stated maturity does not take into consideration the value ascribed to core deposit intangibles.
- (b) Information pertaining to our methodology for measuring the fair values of these assets and liabilities is included in the sections entitled "Qualitative Disclosures of Valuation Techniques" and "Assets Measured at Fair Value on a Nonrecurring Basis" in this Note.
- (c) Fair values of held-to-maturity securities are determined by using models that are based on security-specific details, as well as relevant industry and economic factors. The most significant of these inputs are quoted market prices, interest rate spreads on relevant benchmark securities, and certain prepayment assumptions. We review the valuations derived from the models to ensure they are reasonable and consistent with the values placed on similar securities traded in the secondary markets.

(d) The fair value of loans is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital. In addition, an incremental liquidity discount is applied to certain loans, using historical sales of loans during periods of similar economic conditions as a benchmark. The fair value of loans includes lease financing receivables at their aggregate carrying amount, which is equivalent to their fair value.

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- (e) Fair values of time deposits and long-term debt are based on discounted cash flows utilizing relevant market inputs.
- (f) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. We determine fair value based on assumptions pertaining to the factors that a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2014 and 2015, the fair values of our loan portfolios generally remained stable, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change. Also, because the applicable accounting guidance for financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table above do not, by themselves, represent the underlying value of our company as a whole.

Education lending business. The discontinued education lending business consists of loans in portfolio (recorded at carrying value with appropriate valuation reserves) and loans in portfolio (recorded at fair value). All of these loans were excluded from the table above as follows:

- ⌚ Loans at carrying value, net of allowance, of \$1.8 billion (\$1.5 billion at fair value) at December 31, 2015, and \$2.1 billion (\$1.8 billion at fair value) at December 31, 2014;

- ⌚ Portfolio loans at fair value of \$4 million at December 31, 2015, and \$191 million at December 31, 2014. These loans and securities are classified as Level 3 because we rely on unobservable inputs when determining fair value since observable market data is not available.

On September 30, 2014, we sold the residual interests in all of our outstanding education loan securitization trusts to a third party. With that transaction, in accordance with the applicable accounting guidance, we deconsolidated the securitization trusts and removed the trust assets and liabilities from our balance sheet at September 30, 2014. Additional information regarding the sale of the residual interests and deconsolidation of the securitization trusts is provided in Note 13.

Residential real estate mortgage loans. Residential real estate mortgage loans with carrying amounts of \$2.2 billion at December 31, 2015, and December 31, 2014, respectively, are included in Loans, net of allowance in the previous table.

Short-term financial instruments. For financial instruments with a remaining average life to maturity of less than six months, carrying amounts were used as an approximation of fair values.

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The amortized cost, unrealized gains and losses, and fair value of our securities available for sale and held-to-maturity securities are presented in the following table. Gross unrealized gains and losses represent the difference between the amortized cost and the fair value of securities on the balance sheet as of the dates indicated. Accordingly, the amount of these gains and losses may change in the future as market conditions change. For more information about our securities available for sale and held-to-maturity securities and the related accounting policies, see Note 1 (Summary of Significant Accounting Policies).

December 31, <i>in millions</i>	2015				2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE								
States and political subdivisions	\$ 14			14	\$ 22	\$ 1		\$ 23
Collateralized mortgage obligations	12,082	\$ 51	\$ 138	\$ 11,995	11,310	96	\$ 136	11,270
Other mortgage-backed securities	2,193	11	15	2,189	2,004	32	1	2,035
Other securities	21		1	20	29	3		32
Total securities available for sale	\$ 14,310	\$ 62	\$ 154	\$ 14,218	\$ 13,365	\$ 132	\$ 137	\$ 13,360
HELD-TO-MATURITY SECURITIES								
Collateralized mortgage obligations	\$ 4,174	\$ 5	\$ 50	\$ 4,129	\$ 4,755	\$ 15	\$ 57	\$ 4,713
Other mortgage-backed securities	703		4	699	240	1		241
Other securities	20			20	20			20
Total held-to-maturity securities	\$ 4,897	\$ 5	\$ 54	\$ 4,848	\$ 5,015	\$ 16	\$ 57	\$ 4,974

The following table summarizes our securities that were in an unrealized loss position as of December 31, 2015, and December 31, 2014.

<i>in millions</i>	Duration of Unrealized Loss Position				Total	
	Less than 12 Months		12 Months or Longer		Fair Value	Gross Unrealized
	Fair Value	Gross Unrealized	Fair Value	Gross Unrealized		

	Losses		Losses		Losses	
December 31, 2015						
Securities available for sale:						
Collateralized mortgage obligations	\$ 5,190	\$ 43	\$ 3,206	\$ 96	\$ 8,396	\$ 139
Other mortgage-backed securities	1,670	15			1,670	15
Other securities ^(a)			3		3	
Held-to-maturity:						
Collateralized mortgage obligations	1,793	16	1,320	34	3,113	50
Other mortgage-backed securities	547	4			547	4
Other securities ^(b)	4				4	
Total temporarily impaired securities	\$ 9,204	\$ 78	\$ 4,529	\$ 130	\$ 13,733	\$ 208
December 31, 2014						
Securities available for sale:						
Collateralized mortgage obligations	\$ 3,019	\$ 52	\$ 2,932	\$ 84	\$ 5,951	\$ 136
Other mortgage-backed securities			78	1	78	1
Other securities ^(a)	4		2		6	
Held-to-maturity:						
Collateralized mortgage obligations	1,005	11	1,994	46	2,999	57
Total temporarily impaired securities	\$ 4,028	\$ 63	\$ 5,006	\$ 131	\$ 9,034	\$ 194

(a) Gross unrealized losses totaled less than \$1 million for other securities available for sale as of December 31, 2015, and December 31, 2014.

(b) Gross unrealized losses totaled less than \$1 million for other securities held-to-maturity as of December 31, 2015.

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At December 31, 2015, we had \$139 million of gross unrealized losses related to 96 fixed-rate CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4.3 years at December 31, 2015. We also had \$15 million of gross unrealized losses related to 35 other mortgage-backed securities positions, which had a weighted-average maturity of 2.9 years at December 31, 2015. Because these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. These unrealized losses are considered temporary since we expect to collect all contractually due amounts from these securities. Accordingly, these investments were reduced to their fair value through OCI, not earnings.

We regularly assess our securities portfolio for OTTI. The assessments are based on the nature of the securities, the underlying collateral, the financial condition of the issuer, the extent and duration of the loss, our intent related to the individual securities, and the likelihood that we will have to sell securities prior to expected recovery.

The debt securities identified as other-than-temporarily impaired are written down to their current fair value. For those debt securities that we intend to sell, or more-likely-than-not will be required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component of AOCI on the balance sheet. As shown in the following table, we had less than \$1 million of impairment losses recognized in earnings for the year ended December 31, 2015.

Year ended December 31, 2015*in millions*

Balance at December 31, 2014	\$	4
Impairment recognized in earnings		
Balance at December 31, 2015	\$	4

Realized gains and losses related to securities available for sale were as follows:

Year ended December 31*in millions*

	2015	2014 ^(a)	2013 ^(b)
Realized gains	\$ 1		\$ 1
Realized losses	1		
Net securities gains (losses)			\$ 1

(a) Realized gains and losses totaled less than \$1 million for the year ended December 31, 2014.

(b) Realized losses totaled less than \$1 million for the year ended December 31, 2013.

At December 31, 2015, securities available for sale and held-to-maturity securities totaling \$6.1 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

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The following table shows securities by remaining maturity. CMOs and other mortgage-backed securities (both of which are included in the securities available-for-sale portfolio) as well as the CMOs in the held-to-maturity portfolio are presented based on their expected average lives. The remaining securities, in both the available-for-sale and held-to-maturity portfolios, are presented based on their remaining contractual maturity. Actual maturities may differ from expected or contractual maturities since borrowers have the right to prepay obligations with or without prepayment penalties.

December 31, 2015	Securities Available for Sale		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>in millions</i>				
Due in one year or less	\$ 283	\$ 287	\$ 9	\$ 9
Due after one through five years	12,834	12,757	4,185	4,140
Due after five through ten years	1,190	1,171	645	641
Due after ten years	3	3	58	58
Total	\$ 14,310	\$ 14,218	\$ 4,897	\$ 4,848

8. Derivatives and Hedging Activities

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

The primary derivatives that we use are interest rate swaps, caps, floors, and futures; foreign exchange contracts; commodity derivatives; and credit derivatives. Generally, these instruments help us manage exposure to interest rate risk, mitigate the credit risk inherent in our loan portfolio, hedge against changes in foreign currency exchange rates, and meet client financing and hedging needs. As further discussed in this note:

- ⌚ interest rate risk is the risk that the EVE or net interest income will be adversely affected by fluctuations in interest rates;
- ⌚ credit risk is the risk of loss arising from an obligor's inability or failure to meet contractual payment or performance terms; and
- ⌚ foreign exchange risk is the risk that an exchange rate will adversely affect the fair value of a financial instrument.

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

At December 31, 2015, after taking into account the effects of bilateral collateral and master netting agreements, we had \$67 million of derivative assets and a positive \$23 million of derivative liabilities that relate to contracts entered into for hedging purposes. Our hedging derivative liabilities are in an asset position largely because we have contracts with positive fair values as a result of master netting agreements. As of the same date, after taking into account the effects of bilateral collateral and master netting agreements and a reserve for potential future losses, we had derivative assets of \$552 million and derivative liabilities of \$655 million that were not designated as hedging instruments.

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Additional information regarding our accounting policies for derivatives is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Derivatives.

Derivatives Designated in Hedge Relationships

Net interest income and the EVE change in response to changes in the mix of assets, liabilities, and off-balance sheet instruments; associated interest rates tied to each instrument; differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities; and changes in interest rates. We utilize derivatives that have been designated as part of a hedge relationship in accordance with the applicable accounting guidance to minimize the exposure and volatility of net interest income and EVE to interest rate fluctuations. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

We designate certain receive fixed/pay variable interest rate swaps as fair value hedges. These contracts convert certain fixed-rate long-term debt into variable-rate obligations, thereby modifying our exposure to changes in interest rates. As a result, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts.

Similarly, we designate certain receive fixed/pay variable interest rate swaps as cash flow hedges. These contracts effectively convert certain floating-rate loans into fixed-rate loans to reduce the potential adverse effect of interest rate decreases on future interest income. Again, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts.

We also designate certain pay fixed/receive variable interest rate swaps as cash flow hedges. These swaps convert certain floating-rate debt into fixed-rate debt. We also use these swaps to manage the interest rate risk associated with anticipated sales of certain commercial real estate loans. The swaps protect against the possible short-term decline in the value of the loans that could result from changes in interest rates between the time they are originated and the time they are sold.

Interest rate swaps were also used to hedge the floating-rate debt that funded fixed-rate leases entered into by our equipment finance line of business. These swaps were designated as cash flow hedges to mitigate the interest rate mismatch between the fixed-rate lease cash flows and the floating-rate payments on the debt. These hedge relationships were terminated during the quarter ended March 31, 2014.

We use foreign currency forward transactions to hedge the foreign currency exposure of our net investment in various foreign equipment finance entities. These entities are denominated in a non-U.S. currency. These swaps are designated as net investment hedges to mitigate the exposure of measuring the net investment at the spot foreign exchange rate.

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at December 31, 2015, was not significant.

Like other financial services institutions, we originate loans and extend credit, both of which expose us to credit risk. We actively manage our overall loan portfolio and the associated credit risk in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate portfolio credit risk. Purchasing credit default swaps enables us to transfer to a third party a portion of the credit risk associated with a particular extension of credit, including

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

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

- ι interest rate swap, cap, and floor contracts entered into generally to accommodate the needs of commercial loan clients;
- ι energy and base metal swap and option contracts entered into to accommodate the needs of clients;
- ι futures contracts and positions with third parties that are intended to offset or mitigate the interest rate or market risk related to client positions discussed above; and
- ι foreign exchange forward and option contracts entered into primarily to accommodate the needs of clients. These contracts are not designated as part of hedge relationships.

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

The following table summarizes the fair values of our derivative instruments on a gross and net basis as of December 31, 2015, and December 31, 2014. The change in the notional amounts of these derivatives by type from December 31, 2014, to December 31, 2015, indicates the volume of our derivative transaction activity during 2015. The notional amounts are not affected by bilateral collateral and master netting agreements. The derivative asset and liability balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Where master netting agreements are not in effect or are not enforceable under bankruptcy laws, we do not adjust those derivative assets and liabilities with counterparties. Securities collateral related to legally enforceable master netting agreements is not offset on the balance sheet. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

	December 31, 2015			December 31, 2014		
		Fair Value			Fair Value	
<i>in millions</i>	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities
Derivatives designated as hedging instruments:						
Interest rate	\$ 18,917	\$ 257	\$ 15	\$ 15,095	\$ 272	\$ 26
Foreign exchange	312	20		371	8	
Total	19,229	277	15	15,466	280	26
Derivatives not designated as hedging instruments:						
Interest rate	43,965	627	548	43,771	665	618
Foreign exchange	6,454	131	124	4,024	85	81

Commodity	1,144	444	433	1,544	608	594
Credit	632	6	6	512	5	7
Total	52,195	1,208	1,111	49,851	1,363	1,300
Netting adjustments ^(a)		(866)	(494)		(1,034)	(542)
Net derivatives in the balance sheet	71,424	619	632	65,317	609	784
Other collateral ^(b)		(91)	(204)		(155)	(241)
Net derivative amounts	\$ 71,424	\$ 528	\$ 428	\$ 65,317	\$ 454	\$ 543

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance.

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

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair

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value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the year ended December 31, 2015, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of December 31, 2015.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the years ended December 31, 2015, and December 31, 2014, and where they are recorded on the income statement.

Year ended December 31, 2015						
<i>millions</i>	Income Statement Location of Net Gains (Losses) on Derivative	Net Gains (Losses) on Derivative	Hedged Item	Income Statement Location of Net Gains (Losses) on Hedged Item	Net Gains (Losses) on Hedged Item	
Interest	Other income	\$ (20)	Long-term debt	Other income	\$ 21	(a)
Interest	Interest expense	123				
Total		\$ 103			\$ 21	

Year ended December 31, 2014						
<i>millions</i>	Income Statement Location of Net Gains (Losses) on Derivative	Net Gains (Losses) on Derivative	Hedged Item	Income Statement Location of Net Gains (Losses) on Hedged Item	Net Gains (Losses) on Hedged Item	
Interest	Other income	\$ 7	Long-term debt	Other income	\$ (5)	(a)
Interest	Interest expense	117				
Total		\$ 124			\$ (5)	

(a) Net gains (losses) on hedged items represent the change in fair value caused by fluctuations in interest rates.

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other income on the income statement. During the year ended December 31, 2015, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of December 31, 2015.

Considering the interest rates, yield curves, and notional amounts as of December 31, 2015, we would expect to reclassify an estimated \$26 million of after-tax net losses on derivative instruments from AOCI to income during the next 12 months for our cash flow hedges. In addition, we expect to reclassify approximately \$1 million of net losses related to terminated cash flow hedges from AOCI to income during the next 12 months. As of December 31, 2015, the maximum length of time over which we hedge forecasted transactions is 13 years.

Net investment hedges. We enter into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of or liquidate a foreign subsidiary). At December 31, 2015, AOCI reflected unrecognized after-tax gains totaling \$41 million related to cumulative changes in the fair value of our net investment hedges, which offset the unrecognized after-tax foreign currency losses on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement, but there was no net investment hedge ineffectiveness as of December 31, 2015. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the year ended December 31, 2015.

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The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the years ended December 31, 2015, and December 31, 2014, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

Year ended December 31, 2015

<i>in millions</i>	Net Gains (Losses) Recognized in OCI (Effective Portion)	Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)		Net Gains Income Statement Location of (Losses) Reclassified From OCI Into Income (Effective Portion)		Income Statement Location of Net Gains (Losses) Net Recognized in Income (Effective Portion)	
Cash Flow Hedges							
Interest rate	\$ 102	Interest income	Loans	\$ 98		Other income	
Interest rate	(2)	Interest expense	Long-term debt	(4)		Other income	
Interest rate	1	Investment banking and debt placement fees				Other income	
Net Investment Hedges							
Foreign exchange contracts	38	Other Income				Other income	
Total	\$ 139			\$ 94			

Year ended December 31, 2014

<i>in millions</i>	Net Gains (Losses) Recognized in OCI (Effective Portion)	Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)		Net Gains Reclassified From OCI Into Income (Effective Portion)		Income Statement Location of Net Gains (Losses) Recognized in Income (Effective Portion)	
Cash Flow Hedges							
Interest rate	\$ 50	Interest income	Loans	\$ 67		Other income	
Interest rate	(8)	Interest expense	Long-term debt	(4)		Other income	
Interest rate	(1)	Investment banking and debt placement fees				Other income	

Net Investment Hedges				
Foreign exchange contracts		27	Other Income	Other income
Total	\$	68	\$	63

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

<i>in millions</i>	December 31, 2014	2015 Hedging Activity	Reclassification of Gains to Net Income	December 31, 2015
AOCI resulting from cash flow and net investment hedges	\$ (8)	\$ 87	\$ (59)	\$ 20

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

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The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, and where they are recorded on the income statement.

Year ended December 31, <i>in millions</i>	2015			2014			2013		
	Corporate Services Income	Other Income	Total	Corporate Services Income	Other Income	Total	Corporate Services Income	Other Income	Total
NET GAINS (LOSSES)									
Interest rate	\$ 28	\$ 28	\$ 28	\$ 16	\$ 16	\$ 16	\$ 17	\$ 17	\$ 17
Foreign exchange	36	36	36	34	34	34	38	38	38
Commodity	5	5	5	6	6	6	5	5	5
Credit	(1)	\$ (15)	(16)		\$ (21)	(21)	1	\$ (15)	(14)
Total net gains (losses)	\$ 68	\$ (15)	\$ 53	\$ 56	\$ (21)	\$ 35	\$ 61	\$ (15)	\$ 46

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with standard ISDA documentation, central clearing rules, and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises, or GNMA. The cash collateral netted against derivative assets on the balance sheet totaled \$377 million at December 31, 2015, and \$518 million at December 31, 2014. The cash collateral netted against derivative liabilities totaled \$5 million at December 31, 2015, and \$26 million at December 31, 2014. The relevant agreements that allow us to access the central clearing organizations to clear derivative transactions are not considered to be qualified master netting agreements. Therefore, we cannot net derivative contracts or offset those contracts with related cash collateral with these counterparties. At December 31, 2015, we posted \$143 million of cash collateral with clearing organizations and held \$6 million of cash collateral from clearing organizations. At December 31, 2014, we posted \$56 million of cash collateral with clearing organizations and did not hold any cash collateral from clearing organizations. This additional cash collateral is included in accrued income and other assets and accrued expense and other liabilities on the balance sheet.

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

December 31,	2015	2014
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in millions

Largest gross exposure (derivative asset) to an individual counterparty	\$	158	\$	133
Collateral posted by this counterparty		85		100
Derivative liability with this counterparty		74		31
Collateral pledged to this counterparty				
Net exposure after netting adjustments and collateral		(1)		2

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

December 31,

<i>in millions</i>		2015		2014
Interest rate	\$	628	\$	607
Foreign exchange		66		41
Commodity		298		478
Credit		4		1
Derivative assets before collateral		996		1,127
Less: Related collateral		377		518
Total derivative assets	\$	619	\$	609

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

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. We began clearing certain types of derivative transactions with these counterparties in June 2013, whereby the central clearing organizations become our counterparties subsequent to novation of the original derivative contracts. In addition, we began entering into derivative contracts through swap execution facilities during the first quarter of 2014. The swap clearing and swap trade execution requirements were mandated by the Dodd-Frank Act for the purpose of reducing counterparty credit risk and increasing transparency in the derivative market. At December 31, 2015, we had gross exposure of \$780 million to broker-dealers and banks. We had net exposure of \$188 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of \$76 million after considering \$112 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures and entering into offsetting positions and other derivative contracts, sometimes with entities other than broker-dealers and banks. Due to the smaller size and magnitude of the individual contracts with clients, we generally do not exchange collateral in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a credit valuation adjustment (included in derivative assets) in the amount of \$8 million at December 31, 2015, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2015, we had gross exposure of \$469 million to client counterparties and other entities that are not broker-dealers or banks for derivatives that have associated master netting agreements. We had net exposure of \$431 million on our derivatives with these counterparties after the application of master netting agreements, collateral, and the related reserve. In addition, the derivatives for one counterparty were guaranteed by a third party with a letter of credit totaling \$30 million.

Credit Derivatives

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

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The following table summarizes the fair value of our credit derivatives purchased and sold by type as of December 31, 2015, and December 31, 2014. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

December 31, <i>in millions</i>	2015			2014		
	Purchased	Sold	Net	Purchased	Sold	Net
Single-name credit default swaps	\$ (3)	\$	(3)	\$ (3)	\$	(3)
Traded credit default swap indices	4		4	1		1
Other ^(a)	\$ (1)	\$	(1)			
Total credit derivatives	\$ 1	\$	(1)	\$ (2)	\$	(2)

(a) As of December 31, 2014, the fair value of other credit derivatives sold totaled less than \$1 million. Single-name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protection against the credit risk of a specific entity (the reference entity) in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring of obligations, identified in the credit derivative contract. As the seller of a single-name credit derivative, we may settle in one of two ways if the underlying reference entity experiences a predefined credit event. We may be required to pay the purchaser the difference between the par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement). If we effect a physical settlement and receive our portion of the related debt obligation, we will join other creditors in the liquidation process, which may enable us to recover a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

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

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

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The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at December 31, 2015, and December 31, 2014. The notional amount represents the maximum amount that the seller could be required to pay. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities' debt obligations using a Moody's credit ratings matrix known as Moody's Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

December 31, <i>dollars in millions</i>	2015			2014		
	Notional Amount	Average Term (Years)	Payment / Performance Risk	Notional Amount	Average Term (Years)	Payment / Performance Risk
Single-name credit default swaps				\$ 5	.72	.87%
Other	\$ 5	2.67	14.46 %	6	2.89	9.58
Total credit derivatives sold	\$ 5			\$ 11		

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody's and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody's and BBB- for S&P). At December 31, 2015, KeyBank's rating was A3 with Moody's and A- with S&P, and KeyCorp's rating was Baa1 with Moody's and BB with S&P. As of December 31, 2015, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled \$211 million, which includes \$199 million in derivative assets and \$410 million in derivative liabilities. We had \$208 million in cash and securities collateral posted to cover those positions as of December 31, 2015. The aggregate fair value of all derivative contracts with credit risk contingent features held by KeyCorp as of December 31, 2015, that were in a net liability position totaled \$7 million, which consists solely of derivative liabilities. We had \$7 million in collateral posted to cover those positions as of December 31, 2015.

The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver under the ISDA Master Agreements had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of December 31, 2015, and December 31, 2014. The additional collateral amounts were calculated based on scenarios under which KeyBank's ratings are downgraded one, two, or three ratings as of December 31, 2015, and December 31, 2014, and take into account all collateral already posted. A similar calculation was performed for KeyCorp, and no additional collateral would have been required as of December 31, 2015, while additional collateral of less than \$1 million as of December 31, 2014, would have been required. For more information about the credit ratings for KeyBank and KeyCorp, see the discussion under the heading "Factors affecting liquidity" in the section entitled "Liquidity risk management" in Item 7 of this report.

December 31,	2015		2014	
<i>in millions</i>	Moody's	S&P	Moody's	S&P
KeyBank's long-term senior unsecured credit ratings	A3	A-	A3	A-
One rating downgrade	\$ 2	\$ 2	\$ 1	\$ 1
Two rating downgrades	2	2	1	1
Three rating downgrades	4	4	3	3

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KeyBank's long-term senior unsecured credit rating was four ratings above noninvestment grade at Moody's and S&P as of December 31, 2015, and December 31, 2014. If KeyBank's ratings had been downgraded below investment grade as of December 31, 2015, and December 31, 2014, payments of up to \$5 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. If KeyCorp's ratings had been downgraded below investment grade as of December 31, 2015, and December 31, 2014, payments of less than \$1 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

9. Mortgage Servicing Assets

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

Year ended December 31,

<i>in millions</i>		2015		2014
Balance at beginning of period	\$	323	\$	332
Servicing retained from loan sales		55		38
Purchases		38		51
Amortization		(94)		(98)
Balance at end of period	\$	322	\$	323
Fair value at end of period	\$	423	\$	417

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The range and weighted-average of the significant unobservable inputs used to fair value our mortgage servicing assets at December 31, 2015, and December 31, 2014, along with the valuation techniques, are shown in the following table:

December 31, 2015		Significant	Range
<i>dollars in millions</i>	Valuation Technique	Unobservable Input	(Weighted-Average)
Mortgage servicing assets	Discounted cash flow	Prepayment speed	1.90 - 17.20%(4.60%)
		Expected defaults	1.00 - 3.00%(1.70%)
		Residual cash flows	
		discount rate	7.00 - 15.00%(7.80%)
		Escrow earn rate	1.00 - 3.50%(2.30%)

	Servicing cost	\$150 - \$2,700(\$1,215)
	Loan assumption rate	0.00 - 3.00%(1.34%)
	Percentage late	0.00 - 2.00%(0.33%)

December 31, 2014**Significant****Range**

<i>dollars in millions</i>	Valuation Technique	Unobservable Input	(Weighted-Average)
Mortgage servicing assets	Discounted cash flow	Prepayment speed	1.30 - 12.70%(4.00%)
		Expected defaults	1.00 - 3.00%(1.90%)
		Residual cash flows	
		discount rate	7.00 - 15.00%(7.80%)
		Escrow earn rate	0.70 - 3.10%(1.90%)
		Servicing cost	\$150 - \$2,748(\$1,075)
		Loan assumption rate	0.20 - 3.00%(1.50%)
		Percentage late	0.00 - 2.00%(0.32%)

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may also change. Expected credit losses, escrow earn rates, and discount rates are critical to the valuation of servicing

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

Contractual fee income from servicing commercial mortgage loans totaled \$48 million for the year ended December 31, 2015, \$46 million for the year ended December 31, 2014, and \$58 million for the year ended December 31, 2013. We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as shown in the table at the beginning of this note, is recorded as a reduction to fee income. Both the contractual fee income and the amortization are recorded in mortgage servicing fees on the income statement.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 (Summary of Significant Accounting Policies) under the heading Servicing Assets.

10. Goodwill and Other Intangible Assets

Goodwill represents the amount by which the cost of net assets acquired in a business combination exceeds their fair value. Other intangible assets are primarily the net present value of future economic benefits to be derived from the purchase of credit card receivable assets and core deposits. Additional information pertaining to our accounting policy for goodwill and other intangible assets is summarized in Note 1 (Summary of Significant Accounting Policies) under the heading Goodwill and Other Intangible Assets.

Our annual goodwill impairment testing is performed as of October 1 each year. On that date in 2015, we determined that the estimated fair value of the Key Community Bank unit was 52% greater than its carrying amount; in 2014, the excess was 26%. On that date in 2015, we determined that the estimated fair value of the Key Corporate Bank unit was 27% greater than its carrying amount; in 2014, the excess was 16%. If actual results, market conditions, and economic conditions were to differ from the assumptions and data used in this goodwill impairment testing, the estimated fair value of the Key Community Bank and Key Corporate Bank units could change. The carrying amounts of the Key Community Bank and Key Corporate Bank units represent the average equity based on risk-weighted regulatory capital for goodwill impairment testing and management reporting purposes.

Based on our quarterly review of impairment indicators during 2015 and 2014, it was not necessary to perform further reviews of goodwill recorded in our Key Community Bank or Key Corporate Bank units. We will continue to monitor the Key Community Bank and Key Corporate Bank units as appropriate since it is particularly dependent upon economic conditions that impact consumer credit risk and behavior.

Changes in the carrying amount of goodwill by reporting unit are presented in the following table.

<i>in millions</i>	Key Community Bank	Key Corporate	Total
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		Bank		
BALANCE AT DECEMBER 31, 2013	\$ 979			\$ 979
Impairment losses based on results of interim impairment testing				
Acquisition of Pacific Crest Securities		\$ 78		78
BALANCE AT DECEMBER 31, 2014	979		78	1,057
Impairment losses based on results of interim impairment testing				
Tax adjustment resulting from Pacific Crest Securities acquisition			3	3
BALANCE AT DECEMBER 31, 2015	\$ 979	\$ 81		\$ 1,060

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The acquisition of Pacific Crest Securities during the third quarter of 2014 resulted in a \$78 million increase in the goodwill recorded in the Key Corporate Bank unit. Approximately \$72 million of the goodwill was allocated to KBCM in the second quarter of 2015, when Pacific Crest Securities was fully merged into KBCM. During the third quarter of 2015, goodwill increased \$3 million to account for a tax item associated with the business combination. Additional information regarding the acquisition is provided in Note 13 (Acquisitions and Discontinued Operations).

As of December 31, 2015, we expected goodwill in the amount of \$96 million to be deductible for tax purposes in future periods.

There were no accumulated impairment losses related to the Key Community Bank unit or the Key Corporate Bank unit at December 31, 2015, December 31, 2014, and December 31, 2013.

The following table shows the gross carrying amount and the accumulated amortization of intangible assets subject to amortization.

December 31, <i>in millions</i>	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Core deposit intangibles	\$ 105	\$ 91	\$ 105	\$ 82
PCCR intangibles	136	91	136	69
Other intangible assets ^(a)	76	70	148	137
Total	\$ 317	\$ 252	\$ 389	\$ 288

(a) Carrying amount and accumulated amortization excludes \$18 million each at December 31, 2015, and December 31, 2014, related to the discontinued operations of Austin and the sale of Victory.

As a result of the acquisition of Pacific Crest Securities on September 3, 2014, intangible assets were recognized at their acquisition date fair value of \$13 million. These intangible assets are being amortized on a straight line basis over an average useful life of five years.

Intangible asset amortization expense was \$36 million for 2015, \$39 million for 2014, and \$44 million for 2013. Estimated amortization expense for intangible assets for each of the next five years is as follows: 2016 \$28 million; 2017 \$19 million; 2018 \$11 million; 2019 \$5 million; and 2020 \$1 million.

11. Variable Interest Entities

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

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

- ⌚ The entity's investors lack the power to direct the activities that most significantly impact the entity's economic performance.
- ⌚ The entity's equity at risk holders do not have the obligation to absorb losses or the right to receive residual returns.
- ⌚ The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity's activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

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Our significant VIEs are summarized below. We define a significant interest in a VIE as a subordinated interest that exposes us to a significant portion, but not the majority, of the VIE's expected losses or residual returns, even though we do not have the power to direct the activities that most significantly impact the entity's economic performance.

On September 30, 2014, we sold the residual interests in all of our outstanding education loan securitization trusts and, therefore, no longer have a significant interest in those trusts. We deconsolidated the securitization trusts as of September 30, 2014, and removed the trust assets and liabilities from our balance sheet. Further information regarding these education loan securitization trusts is provided in Note 13 (Acquisitions and Discontinued Operations) under the heading Education lending.

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

Our maximum exposure to loss in connection with these partnerships consists of our unamortized investment balance plus any unfunded equity commitments and tax credits claimed but subject to recapture. We had \$1.1 billion and \$958 million of investments in LIHTC operating partnerships at December 31, 2015, and December 31, 2014, respectively. These investments are recorded in accrued income and other assets on our balance sheet. We do not have any loss reserves recorded related to these investments because we believe the likelihood of any loss is remote. For all legally binding unfunded equity commitments, we increase our recognized investment and recognize a liability. As of December 31, 2015, and December 31, 2014, we had liabilities of \$410 million and \$309 million, respectively, related to investments in qualified affordable housing projects, which are recorded in accrued expenses and other liabilities on our balance sheet. We continue to invest in these LIHTC operating partnerships.

The assets and liabilities presented in the table below convey the size of KCDC's direct and indirect investments at December 31, 2015, and December 31, 2014. As these investments represent unconsolidated VIEs, the assets and liabilities of the investments themselves are not recorded on our balance sheet. During 2015, we noted that not all of KCDC's unconsolidated VIEs were captured in the table below. As a result, the amounts in the table were revised to incorporate all of KCDC's unconsolidated VIEs for the year ended December 31, 2014. Because our LIHTC investments were appropriately accounted for, these revisions did not impact our financial condition or results of operations for the year ended December 31, 2014.

<i>in millions</i>	Unconsolidated VIEs		
	Total Assets	Total Liabilities	Maximum Exposure to Loss
December 31, 2015			
LIHTC investments	\$ 4,914	\$ 1,368	\$ 1,332
December 31, 2014			
LIHTC investments	\$ 4,362	\$ 887	\$ 1,157

We amortize our LIHTC investments over the period that we expect to receive the tax benefits. In 2015, we recognized \$115 million of amortization and \$134 million of tax credits associated with these investments within

income taxes on our income statement. In 2014, we recognized \$99 million of amortization and \$114 million of tax credits associated with these investments within income taxes on our income statement.

Other unconsolidated VIEs. We are involved with other various entities in the normal course of business which we have determined to be VIEs. We have determined that we are not the primary beneficiary of these

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partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance. Assets associated with these unconsolidated VIEs totaled \$172 million at December 31, 2015, and \$188 million at December 31, 2014. These assets are recorded in accrued income and other assets, other investments, loans, and securities available for sale on our balance sheet. Liabilities associated with these unconsolidated VIEs totaled less than \$1 million at both December 31, 2015, and December 31, 2014, and are recorded in accrued expenses and other liabilities on our balance sheet.

Consolidated VIEs. Prior to 2004, KAHC formed limited partnership funds that invested in LIHTC operating partnerships. Interests in these funds were offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndication fees from the guaranteed funds and continue to earn asset management fees. While we have neither formed new guaranteed funds nor added LIHTC partnerships to the existing funds since October 2003, we continue to act as asset manager and provide occasional funding to existing funds under a guarantee obligation. As a result of this guarantee obligation, we have determined that we are the primary beneficiary of these guaranteed funds and have consolidated them. The guaranteed funds' assets totaled \$1 million at both December 31, 2015, and December 31, 2014, and can only be used to settle the funds' obligations. The guaranteed funds' liabilities totaled \$1 million at both December 31, 2015, and December 31, 2014, and neither creditors nor equity investors in these funds have any recourse to our general credit. Information regarding our maximum potential undiscounted future payments in connection with these guaranteed funds is included in Note 20 (Commitments, Contingent Liabilities and Guarantees) under the heading Return guarantee agreement with LIHTC investors.

Commercial and residential real estate investments and principal investments. Our Principal Investing unit and the Real Estate Capital line of business make equity and mezzanine investments, some of which are in VIEs. These investments are held by nonregistered investment companies subject to the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. We currently are not applying the accounting or disclosure provisions in the applicable accounting guidance for consolidations to these investments, which remain unconsolidated. The FASB had previously deferred the effective date of this guidance for such nonregistered investment companies. New accounting guidance was issued in February 2015 that removes this deferral. The effective date for this guidance is January 1, 2016, for us. Additional information regarding this new accounting guidance is provided in Note 1 (Summary of Significant Accounting Policies).

12. Income Taxes

Income taxes included in the income statement are summarized below. We file a consolidated federal income tax return.

Year ended December 31,

<i>in millions</i>	2015	2014	2013
Currently payable:			
Federal	\$ 337	\$ 288	\$ 216
State	42	33	26
Total currently payable	379	321	242
Deferred:			
Federal	(69)	16	39
State	(7)	(11)	(10)
Total deferred	(76)	5	29

Total income tax (benefit) expense ^(a)	\$	303	\$	326	\$	271
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(a) There was no income tax (benefit) expense on securities transactions in 2015 and 2014. The income tax (benefit) expense on securities transactions totaled \$1 million in 2013. Income tax expense excludes equity- and gross receipts-based taxes, which are assessed in lieu of an income tax in certain states in which we operate. These taxes, which are recorded in noninterest expense on the income statement, totaled \$16 million in 2015, \$17 million in 2014, and \$23 million in 2013.

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Significant components of our deferred tax assets and liabilities included in accrued income and other assets and accrued expense and other liabilities, respectively, on the balance sheet, are as follows:

December 31,

<i>in millions</i>		2015		2014
Allowance for loan and lease losses	\$	327	\$	316
Employee benefits		268		251
Net unrealized securities losses		48		17
Federal credit carryforwards		88		96
State net operating losses and credits		5		9
Other		341		312
Gross deferred tax assets		1,077		1,001
Total deferred tax assets		1,077		1,001
Leasing transactions		651		682
Other		127		125
Total deferred tax liabilities		778		807
Net deferred tax assets (liabilities) ^(a)	\$	299	\$	194

(a) From continuing operations

We conduct quarterly assessments of all available evidence to determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded. The available evidence used in connection with these assessments includes taxable income in prior periods, projected future taxable income, potential tax-planning strategies, and projected future reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo significant change. Based on these criteria, we have recorded a valuation allowance of less than \$1 million dollars against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards.

At December 31, 2015, we had a gross federal credit carryforward of \$91 million. Additionally, we had state net operating loss carryforwards of \$37 million and state credit carryforwards of \$3 million, resulting in a net state deferred tax asset of \$4.3 million. These carryforwards are subject to limitations imposed by tax laws and, if not utilized, will gradually expire through 2031.

The following table shows how our total income tax expense (benefit) and the resulting effective tax rate were derived:

Year ended December 31,	2015		2014		2013	
<i>dollars in millions</i>	Amount	Rate	Amount	Rate	Amount	Rate
	\$ 428	35.0 %	\$ 445	35.0 %	\$ 399	35.0 %

Income (loss) before income taxes times 35% statutory federal tax rate						
Amortization of tax-advantaged investments	81	6.7	69	5.4	63	5.5
Foreign tax adjustments	(1)	(.1)	10	.8	(4)	(.3)
Reduced tax rate on lease financing income	5	.4	(3)	(.2)	(13)	(1.2)
Tax-exempt interest income	(18)	(1.5)	(16)	(1.3)	(15)	(1.3)
Corporate-owned life insurance income	(45)	(3.6)	(41)	(3.2)	(42)	(3.7)
Interest refund (net of federal tax benefit)			(1)	(.1)	(1)	(.1)
State income tax, net of federal tax benefit	22	1.8	15	1.1	10	.9
Tax credits	(155)	(12.7)	(134)	(10.5)	(130)	(11.4)
Other	(14)	(1.2)	(18)	(1.4)	4	.3
Total income tax expense (benefit)	\$ 303	24.8 %	\$ 326	25.6 %	\$ 271	23.7 %

Table of Contents**Liability for Unrecognized Tax Benefits**

The change in our liability for unrecognized tax benefits is as follows:

Year ended December 31,

<i>in millions</i>		2015		2014
Balance at beginning of year	\$	6	\$	6
Increase for other tax positions of prior years		7		
Decrease related to other settlements with taxing authorities		(1)		
Balance at end of year	\$	12	\$	6

Each quarter, we review the amount of unrecognized tax benefits recorded in accordance with the applicable accounting guidance. Any adjustment to unrecognized tax benefits is recorded in income tax expense. The amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate was \$12 million at December 31, 2015, and \$6 million at December 31, 2014. We do not currently anticipate that the amount of unrecognized tax benefits will significantly change over the next 12 months.

As permitted under the applicable accounting guidance, it is our policy to record interest and penalties related to unrecognized tax benefits in income tax expense. We recorded net interest expense of \$.6 million in 2015, net interest credits of \$10.6 million in 2014, and \$1.4 million in 2013. We recovered state tax penalties of \$.3 million in 2015 and \$.2 million in 2013. We did not recover any state tax penalties in 2014. At December 31, 2015, we had an accrued interest payable of \$.9 million, compared to \$1.2 million at December 31, 2014. Our liability for accrued state tax penalties was \$1 million at December 31, 2015, and \$.3 million at December 31, 2014.

The amount of unrecognized tax benefits to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if certain criteria are met at December 31, 2015, and December 31, 2014, are \$2.7 million and \$1 million, respectively.

We file federal income tax returns, as well as returns in various state and foreign jurisdictions. We are subject to income tax examination by the IRS for the tax years 2013 and forward. Currently, we are not under audit for the tax years 2013 and forward. We are not subject to income tax examinations by other tax authorities for years prior to 2006.

13. Acquisitions and Discontinued Operations**Acquisitions**

First Niagara Financial Group, Inc. On October 30, 2015, we announced that KeyCorp entered into a definitive agreement and plan of merger (Agreement) pursuant to which it will acquire all of the outstanding capital stock of First Niagara. Under the terms of the Agreement, at the effective time of the merger, each share of First Niagara common stock will be converted into the right to receive (i) 0.680 of a share of KeyCorp common stock and (ii) \$2.30 in cash. The exchange ratio of KeyCorp stock for First Niagara stock is fixed and will not adjust based on changes in KeyCorp s share trading price. First Niagara equity awards outstanding immediately prior to the effective time of the merger will be converted into equity awards for KeyCorp common stock as provided in the Agreement. Each share of

First Niagara's Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series B, will be converted into a share of a newly created series of preferred stock of KeyCorp having substantially the same terms as First Niagara's preferred stock. Based on the closing price of KeyCorp common shares on Thursday, October 29, 2015, of \$13.38 and assuming First Niagara has 356.272 million shares outstanding on a fully-diluted basis, the value of the total consideration to be paid by KeyCorp pursuant to the Agreement is approximately \$4.1 billion.

The merger is currently expected to be completed during the third quarter of 2016 and is subject to customary closing conditions including the approval of regulators and the shareholders of both KeyCorp and First Niagara.

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As of December 31, 2015, First Niagara, headquartered in Buffalo, New York, had approximately 390 branches with \$40 billion of total assets and \$29 billion of deposits.

Pacific Crest Securities. On September 3, 2014, we acquired Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm based in Portland, Oregon. This acquisition, which was accounted for as a business combination, expanded our corporate and investment banking business unit and added technology to our other industry verticals. During the fourth quarter of 2014, we recorded identifiable intangible assets of \$13 million and goodwill of \$78 million in Key Corporate Bank for this acquisition. During the third quarter of 2015, goodwill increased \$3 million to account for a tax item associated with the business combination. The identifiable intangible assets and the goodwill related to this acquisition are non-deductible for tax purposes. Additional information regarding the identifiable intangible assets and the goodwill related to this acquisition is provided in Note 10 (Goodwill and Other Intangible Assets).

Discontinued operations

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

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

On September 30, 2014, we sold the residual interests in all of our outstanding education lending securitization trusts to a third party for \$57 million. In selling the residual interests, we no longer have the obligation to absorb losses or the right to receive benefits related to the securitization trusts. Therefore, in accordance with the applicable accounting guidance, we deconsolidated the securitization trusts and removed trust assets of \$1.7 billion and trust liabilities of \$1.6 billion from our balance sheet at September 30, 2014. As part of the sale and deconsolidation, we recognized an after-tax loss of \$25 million, which was recorded in income (loss) from discontinued operations, net of tax on our income statement. We continue to service the securitized loans in eight of the securitization trusts and receive servicing fees, whereby we are adequately compensated, as well as remain a counterparty to derivative contracts with three of the securitization trusts. We retained interests in the securitization trusts through our ownership of an insignificant percentage of certificates in two of the securitization trusts and two interest-only strips in one of the securitization trusts. These retained interests were remeasured at fair value on September 30, 2014, and their fair value of \$1 million was recorded in discontinued assets on our balance sheet. These assets were valued using a similar approach and inputs that have been used to value the education loan securitization trust loans and securities, which are further discussed later in this note.

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

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

Year ended December 31,

<i>in millions</i>	2015	2014	2013
Net interest income	\$ 36	\$ 77	\$ 105
Provision for credit losses	21	21	20
Net interest income after provision for credit losses	15	56	85
Noninterest income	4	(111)	(136)
Noninterest expense	17	24	28
Income (loss) before income taxes	2	(79)	(79)
Income taxes	1	(30)	(29)
Income (loss) from discontinued operations, net of taxes ^(a)	\$ 1	\$ (49)	\$ (50)

(a) Includes after-tax charges of \$23 million, \$32 million, and \$40 million for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

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

December 31,

<i>in millions</i>	2015	2014
Held-to-maturity securities	\$ 1	\$ 1
Portfolio loans at fair value	4	191
Loans, net of unearned income ^(a)	1,824	2,104
Less: Allowance for loan and lease losses	28	29
Net loans	1,800	2,266
Accrued income and other assets	30	38
Total assets	\$ 1,831	\$ 2,305

(a) At December 31, 2015, and December 31, 2014, unearned income was less than \$1 million.

The discontinued education lending business consisted of loans in portfolio (recorded at fair value) and loans in portfolio (recorded at carrying value with appropriate valuation reserves). As of June 30, 2015, we decided to sell the portfolio loans that are recorded at fair value, which were subsequently sold during the fourth quarter of 2015. The assets and liabilities in the securitization trusts (recorded at fair value) were removed with the deconsolidation of the securitization trusts on September 30, 2014.

At December 31, 2015, education loans included 1,901 TDRs with a recorded investment of approximately \$21 million (pre-modification and post-modification). A specifically allocated allowance of \$2 million was assigned to these loans as of December 31, 2015. At December 31, 2014, education loans included 1,612 TDRs with a recorded investment of approximately \$17 million (pre-modification and post-modification). A specifically allocated allowance of \$1 million was assigned to these loans as of December 31, 2014. At December 31, 2013, education loans included 1,041 TDRs with a recorded investment of approximately \$13 million (pre-modification and post-modification). A specifically allocated allowance of \$1 million was assigned to these loans at December 31, 2013. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 5 (Asset Quality).

In the past, as part of our education lending business model, we originated and securitized education loans. The process of securitization involved taking a pool of loans from our balance sheet and selling them to a bankruptcy-

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remote qualifying special purpose entity, or trust. This trust then issued securities to investors in the capital markets to raise funds to pay for the loans. The cash flows generated from the loans pays holders of the securities issued. As the transferor, we retained a portion of the risk in the form of a residual interest and also retained the right to service the securitized loans and receive servicing fees.

The trust assets can be used only to settle the obligations or securities the trusts issue; the assets cannot be sold and the liabilities cannot be transferred. The loans in the trusts consist of both private and government-guaranteed loans. The security holders or beneficial interest holders do not have recourse to Key. We no longer had economic interest or risk of loss associated with these education loan securitization trusts as of September 30, 2014, and therefore, the securitization trusts were deconsolidated. During the second quarter of 2014, additional market information became available. Based on this information and our related internal analysis, we adjusted certain assumptions related to valuing the loans in the securitization trusts. As a result, we recognized a net after-tax loss of \$22 million during the second quarter of 2014 related to the fair value of the loans and securities in the securitization trusts. These losses resulted in a reduction in the value of our economic interest in these trusts. We record all income and expense (including fair value adjustments) through income (loss) from discontinued operations, net of tax on our income statement.

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

In June 2015, we transferred \$179 million of loans that were previously purchased from three of the outstanding securitizations trusts pursuant to the legal terms of those particular trusts to held for sale and accounted for them at fair value. These portfolio loans held for sale were valued based on indicative bids to sell the loans. These portfolio loans were previously valued using an internal discounted cash flow model, which was affected by assumptions for defaults, loss severity, discount rates, and prepayments. These loans were considered Level 3 assets since we relied on unobservable inputs when determining their fair value. Our valuation process for these loans prior to June 2015, as well as the trust loans and securities prior to the sale of the residual interests in September 2014, is discussed in more detail below. On October 29, 2015, government-guaranteed loans were sold for \$117 million. On December 8, 2015, private loans were sold for \$45 million. The gain on the sale of these loans was \$1 million. The remaining portfolio loans held for sale, totaling \$4 million, were reclassified to portfolio loans at fair value at December 31, 2015. Portfolio loans accounted for at fair value were \$191 million at December 31, 2014.

When we first consolidated the education loan securitization trusts, we made an election to record them at fair value. Carrying the assets and liabilities of the trusts at fair value better depicted our economic interest. The fair value of the assets and liabilities of the trusts was determined by calculating the present value of the future expected cash flows. We relied on unobservable inputs (Level 3) when determining the fair value of the assets and liabilities of the trusts because observable market data was not available. Our valuation process is described in more detail below.

Corporate Treasury, within our Finance area, was responsible for the quarterly valuation process that previously determined the fair value of our student loans held in portfolio that were accounted for at fair value and for our loans and securities in our education loan securitization trusts. Corporate Treasury provided these fair values to a Working Group Committee (the Working Group) comprising representatives from the line of business, Credit and Market Risk Management, Accounting, Business Finance (part of our Finance area), and Corporate Treasury. The Working Group is a subcommittee of the Fair Value Committee that is discussed in more detail in Note 6 (Fair Value Measurements).

The Working Group reviewed all significant inputs and assumptions and approved the resulting fair values.

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

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

The unobservable inputs set forth in the following table are reviewed and approved by the Working Group on a quarterly basis. The Working Group determines these assumptions based on available data, discussions with appropriate individuals within and outside of Key, and the knowledge and experience of the Working Group members.

A similar discounted cash flow approach to that described above was used on a quarterly basis by Corporate Treasury to determine the fair value of the trust securities. In valuing these securities, the discount rates used were provided by a third-party valuation consultant. These discount rates were based primarily on secondary market spread indices for similar student loans and asset-backed securities and were developed by the consultant using market-based data. On a quarterly basis, the Working Group reviewed the discount rate inputs used in the valuation process for reasonableness.

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

The following table shows the significant unobservable inputs used to measure the fair value of the portfolio loans accounted for at fair value at December 31, 2015, and December 31, 2014:

December 31, 2015	Fair Value of Level 3 Assets and Liabilities	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
<i>dollars in millions</i>				

Portfolio loans accounted for at fairvalue	\$	4	Market approach	Indicative bids	84.50	104.00%
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December 31, 2014	Fair Value of Level 3 Assets and Liabilities	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
<i>dollars in millions</i>				
Portfolio loans accounted for at fair value	\$ 191	Discounted cash flow	Prepayment speed	5.40 5.60% (5.50%)
			Loss severity	2.00 77.00% (25.66%)
			Discount rate	3.90 4.00% (3.92%)
			Default rate	.86 1.70% (1.12%)

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The following table shows the principal and fair value amounts for our portfolio loans at carrying value and portfolio loans at fair value at December 31, 2015, and December 31, 2014. Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans.

<i>in millions</i>	December 31, 2015		December 31, 2014	
	Principal	Fair Value	Principal	Fair Value
Portfolio loans at carrying value				
Accruing loans past due 90 days or more	\$ 26	N/A	\$ 29	N/A
Loans placed on nonaccrual status	8	N/A	11	N/A
Portfolio loans at fair value				
Accruing loans past due 90 days or more	\$ 1	\$ 1	\$ 5	\$ 5
Loans placed on nonaccrual status				

The following table shows the portfolio loans at fair value and their related contractual amounts at December 31, 2015, and December 31, 2014.

<i>in millions</i>	December 31, 2015		December 31, 2014	
	Contractual Amount	Fair Value	Contractual Amount	Fair Value
ASSETS				
Portfolio loans	\$ 4	\$ 4	\$ 192	\$ 191

The following tables present the assets of the portfolio loans measured at fair value on a recurring basis at December 31, 2015, and December 31, 2014.

December 31, 2015

<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			\$ 4	\$ 4
Total assets on a recurring basis at fair value			\$ 4	\$ 4

December 31, 2014

<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			\$ 191	\$ 191

Total assets on a recurring basis at fair value	\$ 191	\$ 191
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The following table shows the change in the fair values of the Level 3 portfolio loans held for sale, portfolio loans, and consolidated education loan securitization trusts for the years ended December 31, 2015, and December 31, 2014.

<i>in millions</i>	Portfolio Student Loans Held For Sale	Portfolio Student Loans	Trust Student Loans	Trust Other Assets	Trust Securities	Trust Other Liabilities
Balance at December 31, 2013		\$ 147	\$ 1,960	\$ 20	\$ 1,834	\$ 20
Gains (losses) recognized in earnings ^(a)		(8)	(34)		33	
Purchases		74				
Sales			(74)			
Settlements		(22)	(202)	(1)	(278)	(3)
Transfers out due to deconsolidation			(1,650)	(19)	(1,589)	(17)
Balance at December 31, 2014 ^(b)		\$ 191				
Gains (losses) recognized in earnings ^(a)	\$ (3)	1				
Sales	(161)					
Settlements	(11)	(13)				
Loans transferred to held for sale	179	(179)				
Loans transferred to portfolio	(4)	4				
Balance at December 31, 2015 ^(b)		\$ 4				

(a) Gains (losses) were driven primarily by fair value adjustments.

(b) There were no issuances or transfers into Level 3 for the year ended December 31, 2014. There were no purchases, issuances, transfers into Level 3 or transfers, out of Level 3 for the year ended December 31, 2015.

Victory Capital Management and Victory Capital Advisors. On July 31, 2013, we completed the sale of Victory to a private equity fund. During March 2014, client consents were secured and assets under management were finalized and, as a result, we recorded an additional after-tax cash gain of \$6 million as of March 31, 2014. Since February 21, 2013, when we agreed to sell Victory, we have accounted for this business as a discontinued operation.

The results of this discontinued business are included in income (loss) from discontinued operations, net of taxes on the income statement. The components of income (loss) from discontinued operations, net of taxes for Victory, which

includes the additional gain recorded as of March 31, 2014, on the sale of this business, are as follows:

Year ended December 31,

<i>in millions</i>	2015	2014	2013
Net interest income	\$ 12		
Noninterest income		10	\$ 212
Noninterest expense		1	66
Income (loss) before income taxes		21	146
Income taxes		8	54
Income (loss) from discontinued operations, net of taxes	\$ 13	\$ 92	

There were no discontinued assets or liabilities of Victory for the years ended December 31, 2015, and December 31, 2014.

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

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The results of this discontinued business are included in income (loss) from discontinued operations, net of taxes on the income statement. The components of income (loss) from discontinued operations, net of taxes for Austin are as follows:

Year ended December 31,

<i>in millions</i>	2015	2014	2013
Noninterest expense	\$ 4	\$ 1	
Income (loss) before income taxes		(4)	(1)
Income taxes		(1)	1
Income (loss) from discontinued operations, net of taxes	\$ (3)	\$ (2)	

The discontinued assets and liabilities of Austin included on the balance sheet are as follows:

December 31,

<i>in millions</i>	2015	2014
Cash and due from banks	\$ 15	\$ 19
Total assets	\$ 15	\$ 19
Accrued expense and other liabilities		\$ 3
Total liabilities		\$ 3

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

Year ended December 31,

<i>in millions</i>	2015	2014	2013
Net interest income	\$ 36	\$ 89	\$ 105
Provision for credit losses	21	21	20
Net interest income after provision for credit losses	15	68	85
Noninterest income	4	(101)	76
Noninterest expense	17	29	95
Income (loss) before income taxes	2	(62)	66
Income taxes	1	(23)	26
Income (loss) from discontinued operations, net of taxes ^(a)	\$ 1	\$ (39)	\$ 40

(a) Includes after-tax charges of \$23 million, \$32 million, and \$40 million for the years ended December 31, 2015, December 31, 2014, and December 31, 2013, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The combined assets and liabilities of the discontinued operations are as follows:

December 31,

<i>in millions</i>	2015	2014
Cash and due from banks	\$ 15	\$ 19
Held-to-maturity securities	1	1
Portfolio loans at fair value	4	191
Loans, net of unearned income ^(a)	1,824	2,104
Less: Allowance for loan and lease losses	28	29
Net loans	1,800	2,266
Accrued income and other assets	30	38
Total assets	\$ 1,846	\$ 2,324
Accrued expense and other liabilities		\$ 3
Total liabilities		\$ 3

(a) At December 31, 2015, and December 31, 2014, unearned income was less than \$1 million.

Table of Contents**14. Securities Financing Activities**

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

The following table summarizes our securities financing agreements at December 31, 2015, and December 31, 2014:

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

Offsetting of financial liabilities:Repurchase agreements ^(c)

Total

<i>in millions</i>	December 31, 2014				
	Gross Amount Presented in Balance Sheet	Netting Adjustments	(a)	Collateral ^(b)	Net Amounts
Offsetting of financial assets:					
Reverse repurchase agreements	\$ 3	\$ (1)		\$ (2)	
Total	\$ 3	\$ (1)		\$ (2)	
Offsetting of financial liabilities:					
Repurchase agreements	\$ 1	\$ (1)			
Total	\$ 1	\$ (1)			

- (a) Netting adjustments take into account the impact of master netting agreements that allow us to settle with a single counterparty on a net basis.

- (b) These adjustments take into account the impact of bilateral collateral agreements that allow us to offset the net positions with the related collateral. The application of collateral cannot reduce the net position below zero. Therefore, excess collateral, if any, is not reflected above.

- (c) Repurchase agreements are collateralized by U.S. Treasury securities and contracted on an overnight basis. Like other financing transactions, securities financing agreements contain an element of credit risk. To mitigate and manage credit risk exposure, we generally enter into master netting agreements and other collateral arrangements that give us the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Additionally, we establish and monitor limits on our counterparty credit risk exposure by product type. For the reverse repurchase agreements, we monitor the value of the underlying securities we received from counterparties and either request additional collateral or return a portion

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of the collateral based on the value of those securities. We generally hold collateral in the form of highly rated securities issued by the U.S. Treasury and fixed income securities. In addition, we may need to provide collateral to counterparties under our repurchase agreements and securities borrowed transactions. In general, the collateral we pledge and receive can be sold or repledged by the secured parties.

15. Stock-Based Compensation

We maintain several stock-based compensation plans, which are described below. Total compensation expense for these plans was \$59 million for 2015, \$46 million for 2014, and \$38 million for 2013. The total income tax benefit recognized in the income statement for these plans was \$22 million for 2015, \$17 million for 2014, and \$14 million for 2013. Stock-based compensation expense related to awards granted to employees is recorded in personnel expense on the income statement; compensation expense related to awards granted to directors is recorded in other expense.

Our compensation plans allow us to grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, other awards which may be denominated or payable in or valued by reference to our common shares or other factors, discounted stock purchases, and deferred compensation to eligible employees and directors. At December 31, 2015, we had 66,728,574 common shares available for future grant under our compensation plans. In accordance with a resolution adopted by the Compensation and Organization Committee of KeyCorp's Board of Directors, we may not grant options to purchase common shares, restricted stock or other shares under any long-term compensation plan in an aggregate amount that exceeds 6% of our outstanding common shares in any rolling three-year period.

Stock Options

Stock options granted to employees generally become exercisable at the rate of 25% per year. No option granted by KeyCorp will be exercisable less than one year after, or expire later than ten years from, the grant date. The exercise price is the closing price of our common shares on the grant date.

We determine the fair value of options granted using the Black-Scholes option-pricing model. This model was originally developed to determine the fair value of exchange-traded equity options, which (unlike employee stock options) have no vesting period or transferability restrictions. Because of these differences, the Black-Scholes model does not precisely value an employee stock option, but it is commonly used for this purpose. The model assumes that the estimated fair value of an option is amortized as compensation expense over the option's vesting period.

The Black-Scholes model requires several assumptions, which we developed and update based on historical trends and current market observations. Our determination of the fair value of options is only as accurate as the underlying assumptions. The assumptions pertaining to options issued during 2015, 2014, and 2013 are shown in the following table.

Year ended December 31,	2015	2014	2013
Average option life	6.0 years	6.2 years	6.3 years
Future dividend yield	1.84 %	1.70 %	2.14 %
Historical share price volatility	.382	.497	.495
Weighted-average risk-free interest rate	1.7 %	1.9 %	1.1 %

Under KeyCorp's 2013 Equity Compensation Plan, the Compensation and Organization Committee has authority to approve all stock option grants but may delegate some of its authority to grant awards from time to time. The committee has delegated to our Chief Executive Officer the authority to grant equity awards, including stock options, to any employee who is not designated an officer for purposes of Section 16 of the Exchange Act. No more than 3,000,000 common shares may be issued under this authority.

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The following table summarizes activity, pricing and other information for our stock options for the year ended December 31, 2015.

	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Life (Years)	Aggregate Intrinsic Value ^(a)
Outstanding at December 31, 2014	19,915,556	\$ 19.67	3.8	\$ 58
Granted	894,900	14.11		
Exercised	(2,496,965)	8.78		
Lapsed or canceled	(3,247,043)	34.11		
Outstanding at December 31, 2015	15,066,448	\$ 18.04	3.8	39
Expected to vest	2,199,240	\$ 11.30	7.7	\$ 5
Exercisable at December 31, 2015	12,680,764	\$ 19.28	3.0	\$ 34

(a) The intrinsic value of a stock option is the amount by which the fair value of the underlying stock exceeds the exercise price of the option. At December 31, 2015, the fair value of the underlying stock was less than the weighted-average exercise price per option.

The weighted-average grant-date fair value of options was \$4.33 for options granted during 2015, \$5.26 for options granted during 2014, and \$3.55 for options granted during 2013. Stock option exercises numbered 2,496,965 in 2015, 3,050,309 in 2014, and 3,574,354 in 2013. The aggregate intrinsic value of exercised options was \$14 million for 2015, \$16 million for 2014, and \$13 million for 2013. As of December 31, 2015, unrecognized compensation cost related to nonvested options under the plans totaled \$4 million. We expect to recognize this cost over a weighted-average period of 2.6 years.

Cash received from options exercised was \$22 million, \$26 million, and \$26 million in 2015, 2014, and 2013, respectively. The actual tax benefit realized for the tax deductions from options exercised totaled \$2 million for 2015, \$2 million for 2014, and \$1 million for 2013.

Long-Term Incentive Compensation Program

Our Long-Term Incentive Compensation Program (the Program) rewards senior executives critical to our long-term financial success. Awards are granted annually in a variety of forms:

- deferred cash payments that generally vest and are payable at the rate of 25% per year;
- time-lapsed (service condition) restricted stock units payable in stock, which generally vest at the rate of 25% per year;

- ⌚ performance units payable in stock, which vest at the end of the three-year performance cycle and will not vest unless Key attains defined performance levels; and

- ⌚ performance units payable in cash, which vest at the end of the three-year performance cycle and will not vest unless Key attains defined performance levels.

Performance units vested in 2015 numbered 1,075,082 and were payable in cash. The total fair value of the performance units that vested in 2015 was \$15 million. No performance units were scheduled to vest during 2014; therefore, no corresponding payments were made during that year.

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The following table summarizes activity and pricing information for the nonvested shares in the Program for the year ended December 31, 2015.

	Vesting Contingent on Service Conditions		Vesting Contingent on Performance and Service Conditions	
	Number of Nonvested Shares	Weighted-Average Grant-Date Fair Value	Number of Nonvested Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2014	5,024,212	\$ 10.61	4,074,320	\$ 13.04
Granted	4,335,823	14.11	1,297,239	13.60
Vested	(1,978,447)	9.73	(1,531,950)	13.19
Forfeited	(231,086)	12.69	(126,338)	12.97
Outstanding at December 31, 2015	7,150,502	\$ 12.88	3,713,271	\$ 13.17

The compensation cost of time-lapsed and performance-based restricted stock or unit awards granted under the Program is calculated using the closing trading price of our common shares on the grant date.

Unlike time-lapsed and performance-based restricted stock or units, we do not pay dividends during the vesting period for performance shares or units that may become payable in excess of targeted performance.

The weighted-average grant-date fair value of awards granted under the Program was \$13.99 during 2015, \$13.00 during 2014, and \$10.96 during 2013. As of December 31, 2015, unrecognized compensation cost related to nonvested shares under the Program totaled \$63 million. We expect to recognize this cost over a weighted-average period of 2.2 years. The total fair value of shares vested was \$39 million in 2015, \$36 million in 2014, and \$23 million in 2013.

Deferred Compensation and Other Restricted Stock Awards

Our deferred compensation arrangements include voluntary and mandatory deferral programs for common shares awarded to certain employees and directors. Mandatory deferred incentive awards vest at the rate of 25% per year beginning one year after the deferral date for awards granted in 2012 and after, and 33-1/3% per year beginning one year after the deferral date for awards granted prior to 2012. Deferrals under the voluntary programs are immediately vested.

We also may grant, upon approval by the Compensation and Organization Committee (or our Chief Executive Officer with respect to her delegated authority), other time-lapsed restricted stock or unit awards under various programs to recognize outstanding performance.

The following table summarizes activity and pricing information for the nonvested shares granted under our deferred compensation plans and these other restricted stock or unit award programs for the year ended December 31, 2015.

	Number of Nonvested Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2014	3,123,540	\$ 11.21
Granted	1,108,249	14.22
Dividend equivalents	8,692	13.83
Vested	(1,127,841)	10.72
Forfeited	18,758	13.16
Outstanding at December 31, 2015	3,131,398	\$ 12.47

The weighted-average grant-date fair value of awards granted was \$14.22 during 2015, \$13.53 during 2014, and \$10.71 during 2013. As of December 31, 2015, unrecognized compensation cost related to nonvested shares

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granted under our deferred compensation plans and the other restricted stock or unit award programs totaled \$14 million. We expect to recognize this cost over a weighted-average period of 2.2 years. The total fair value of shares vested was \$15 million in 2015, \$12 million in 2014, and \$19 million in 2013. Dividend equivalents presented in the preceding table represent the value of dividends accumulated during the vesting period.

Discounted Stock Purchase Plan

Our Discounted Stock Purchase Plan provides employees the opportunity to purchase our common shares at a 10% discount through payroll deductions or cash payments. Purchases are limited to \$10,000 in any month and \$50,000 in any calendar year, and are immediately vested. To accommodate employee purchases, we issue treasury shares on or around the fifteenth day of the month following the month employee payments are received. We issued 250,913 common shares at a weighted-average cost to the employee of \$12.55 during 2015, 238,257 common shares at a weighted-average cost to the employee of \$12.06 during 2014, and 264,775 common shares at a weighted-average cost to the employee of \$9.83 during 2013.

Information pertaining to our method of accounting for stock-based compensation is included in Note 1 (Summary of Significant Accounting Policies) under the heading Stock-Based Compensation.

16. Employee Benefits

In accordance with the applicable accounting guidance for defined benefit and other postretirement plans, we measure plan assets and liabilities as of the end of the fiscal year.

Pension Plans

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

Pre-tax AOCI not yet recognized as net pension cost was \$593 million at December 31, 2015, and \$587 million at December 31, 2014, consisting entirely of net unrecognized losses. During 2016, we expect to recognize \$17 million of net unrecognized losses in pre-tax AOCI as net pension cost.

During 2015, 2014, and 2013, lump sum payments made under certain pension plans triggered settlement accounting. In accordance with the applicable accounting guidance for defined benefit plans, we performed a remeasurement of the affected plans in conjunction with the settlement and recognized the settlement loss as reflected in the following table.

The components of net pension cost and the amount recognized in OCI for all funded and unfunded plans are as follows:

Year ended December 31,

<i>in millions</i>	2015	2014	2013
Interest cost on PBO	\$ 41	\$ 46	\$ 42

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Expected return on plan assets	(56)	(66)	(67)
Amortization of losses	18	16	19
Settlement loss	23	23	27
Net pension cost (benefit)	\$ 26	\$ 19	\$ 21
Other changes in plan assets and benefit obligations recognized in OCI:			
Net (gain) loss	\$ 47	\$ 97	\$ (106)
Amortization of losses	(41)	(39)	(46)
Total recognized in comprehensive income	\$ 6	\$ 58	\$ (152)
Total recognized in net pension cost and comprehensive income	\$ 32	\$ 77	\$ (131)

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The information related to our pension plans presented in the following tables is based on current actuarial reports using measurement dates of December 31, 2015, and December 31, 2014.

The following table summarizes changes in the PBO related to our pension plans.

Year ended December 31,

<i>in millions</i>	2015	2014
PBO at beginning of year	\$ 1,206	\$ 1,156
Interest cost	41	46
Actuarial losses (gains)	(24)	97
Benefit payments	(87)	(93)
PBO at end of year	\$ 1,136	\$ 1,206

The following table summarizes changes in the FVA.

Year ended December 31,

<i>in millions</i>	2015	2014
FVA at beginning of year	\$ 957	\$ 970
Actual return on plan assets	(15)	66
Employer contributions	14	14
Benefit payments	(87)	(93)
FVA at end of year	\$ 869	\$ 957

The following table summarizes the funded status of the pension plans, which equals the amounts recognized in the balance sheets at December 31, 2015, and December 31, 2014.

December 31,

<i>in millions</i>	2015	2014
Funded status ^(a)	\$ (267)	\$ (249)
Net prepaid pension cost recognized consists of:		
Current liabilities	\$ (14)	\$ (14)
Noncurrent liabilities	(253)	(235)
Net prepaid pension cost recognized ^(b)	\$ (267)	\$ (249)

(a) The shortage of the FVA under the PBO.

(b) Represents the accrued benefit liability of the pension plans.

At December 31, 2015, our primary qualified cash balance pension plan was sufficiently funded under the requirements of ERISA. Consequently, we are not required to make a minimum contribution to that plan in 2016. We also do not expect to make any significant discretionary contributions during 2016.

At December 31, 2015, we expect to pay the benefits from all funded and unfunded pension plans as follows: 2016 \$98 million; 2017 \$98 million; 2018 \$97 million; 2019 \$84 million; 2020 \$80 million and \$366 million in the aggregate from 2021 through 2025.

The ABO for all of our pension plans was \$1.1 billion at December 31, 2015, and \$1.2 billion at December 31, 2014. As indicated in the table below, collectively our plans had an ABO in excess of plan assets as follows:

December 31, <i>in millions</i>	2015	2014
PBO	\$ 1,136	\$ 1,206
ABO	1,136	1,206
Fair value of plan assets	869	957

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To determine the actuarial present value of benefit obligations, we assumed the following weighted-average rates.

December 31,	2015	2014
Discount rate	3.75 %	3.50 %
Compensation increase rate	N/A	N/A

To determine net pension cost, we assumed the following weighted-average rates.

Year ended December 31,	2015	2014	2013
Discount rate	3.50 %	4.25 %	3.25 %
Compensation increase rate	N/A	N/A	N/A
Expected return on plan assets	6.25	7.25	7.25

We estimate that we will recognize \$6 million in net pension cost for 2016, compared to \$26 million for 2015, and \$19 million for 2014. Costs are expected be less in 2016 than in 2015 unless the 2016 lump sum payments made under our primary qualified cash balance pension plan are greater than the plan's interest cost component of net pension cost for the year. If this situation occurs during 2016, in accordance with the applicable accounting guidance for defined benefit plans, we will recognize in earnings a portion of the aggregate gain or loss recorded in AOCI. Absent settlement losses, costs are expected to be higher in 2016 than 2015, primarily due to a lower expected return on plan assets and higher discount rate. Costs increased from 2014 to 2015 due to a lower expected return on plan assets and a change to new mortality tables and mortality improvements that were finalized in October 2014. Costs slightly declined from 2013 to 2014 due to a smaller settlement loss in 2014.

We estimate that a 25 basis point increase or decrease in the expected return on plan assets would either decrease or increase, respectively, our net pension cost for 2016 by approximately \$2 million. Pension cost also is affected by an assumed discount rate. We estimate that a 25 basis point change in the assumed discount rate would change net pension cost for 2016 by approximately \$1 million.

We determine the assumed discount rate based on the rate of return on a hypothetical portfolio of high quality corporate bonds with interest rates and maturities that provide the necessary cash flows to pay benefits when due.

We determine the expected return on plan assets using a calculated market-related value of plan assets that smoothes what might otherwise be significant year-to-year volatility in net pension cost. Changes in the value of plan assets are not recognized in the year they occur. Rather, they are combined with any other cumulative unrecognized asset- and obligation-related gains and losses and reflected evenly in the market-related value during the five years after they occur as long as the market-related value does not vary more than 10% from the plan's FVA.

The expected return on plan assets is determined by considering a number of factors, the most significant of which are:

- i Our expectations for returns on plan assets over the long term, weighted for the investment mix of the assets. These expectations consider, among other factors, historical capital market returns of equity, fixed income, convertible, and other securities, and forecasted returns that are modeled under various economic scenarios.

- ⌚ Historical returns on our plan assets. Based on an annual reassessment of current and expected future capital market returns, our expected return on plan assets was 6.25% for 2015 and 7.25% for 2014 and 2013. As part of an annual reassessment of current and expected future capital market returns, we deemed a rate of 6.00% to be appropriate in estimating 2016 pension cost.

The investment objectives of the pension funds are developed to reflect the characteristics of the plans, such as pension formulas, cash lump sum distribution features, and the liability profiles of the plans participants. An executive oversight committee reviews the plans investment performance at least quarterly, and compares

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performance against appropriate market indices. The pension funds' investment objectives are to balance total return objectives with a continued management of plan liabilities, and to minimize the mismatch between assets and liabilities. These objectives are being implemented through liability driven investing and the adoption of a de-risking glide path. The following table shows the asset target allocations prescribed by the pension funds' investment policies based on the plan's funded status at December 31, 2015.

Asset Class	Target Allocation 2015
Equity securities:	
U.S.	20 %
International	16
Fixed income securities	40
Convertible securities	5
Real assets	13
Other assets	6
Total	100 %

Equity securities include common stocks of domestic and foreign companies, as well as foreign company stocks traded as American Depositary Shares on U.S. stock exchanges. Debt securities include investments in domestic- and foreign-issued corporate bonds, U.S. government and agency bonds, international government bonds, and mutual funds. Convertible securities include investments in convertible bonds. Real assets include an investment in a diversified real asset strategy separate account designed to provide exposure to the three core real assets: Treasury Inflation-Protected Securities, commodities, and real estate. Other assets include investments in a multi-strategy investment fund and a limited partnership.

Although the pension funds' investment policies conditionally permit the use of derivative contracts, we have not entered into any such contracts, and we do not expect to employ such contracts in the future.

The valuation methodologies used to measure the fair value of pension plan assets vary depending on the type of asset, as described below. For an explanation of the fair value hierarchy, see Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements.

Equity securities. Equity securities traded on securities exchanges are valued at the closing price on the exchange or system where the security is principally traded. These securities are classified as Level 1 since quoted prices for identical securities in active markets are available.

Debt securities. Substantially all debt securities are investment grade and include domestic- and foreign-issued corporate bonds and U.S. government and agency bonds. These securities are valued using evaluated prices based on observable inputs, such as dealer quotes, available trade information, spreads, bids and offers, prepayment speeds, U.S. Treasury curves, and interest rate movements. Debt securities are classified as Level 2.

Mutual funds. Exchange-traded mutual funds listed or traded on securities exchanges are valued at the closing price on the exchange or system where the security is principally traded. These securities are classified as Level 1 because quoted prices for identical securities in active markets are available. All other investments in mutual funds are valued

at their closing net asset values. Because net asset values are based primarily on observable inputs, most notably quoted prices for the underlying assets, these nonexchange-traded investments are classified as Level 2.

Collective investment funds. Investments in collective investment funds are valued at their closing net asset values. Because net asset values are based primarily on observable inputs, most notably quoted prices for the underlying assets, these investments are classified as Level 2.

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Insurance investment contracts and pooled separate accounts. Deposits under insurance investment contracts and pooled separate accounts with insurance companies do not have readily determinable fair values and are valued using a methodology that is consistent with accounting guidance that allows the plan to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership in partners' capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the investment as reported by the insurance company; thus, these investments are classified as Level 3.

Other assets. Other assets include an investment in a multi-strategy investment fund and an investment in a limited partnership. These investments do not have readily determinable fair values and are valued using a methodology consistent with accounting guidance that allows the plan to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership in partners' capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the investment as reported by the investment manager or general partner of the investment fund; thus, these investments are classified as Level 3.

The following tables show the fair values of our pension plan assets by asset class at December 31, 2015, and December 31, 2014.

December 31, 2015*in millions*

	Level 1	Level 2	Level 3	Total
ASSET CLASS				
Equity securities:				
Common U.S.	\$ 128			\$ 128
Common International	20			20
Preferred U.S.	2			2
Debt securities:				
Corporate bonds U.S.		\$ 92		92
Corporate bonds International		26		26
Government and agency bonds U.S.		100		100
Government bonds International		1		1
State and municipal bonds		6		6
Mutual funds:				
Equity U.S.	16			16
Equity International	24			24
Fixed income U.S.	5			5
Fixed income International	2			2
Collective investment funds:				
Equity U.S.		26		26
Equity International		106		106
Convertible securities		41		41
Fixed income securities		86		86
Short-term investments		21		21
Real assets		101		101
Insurance investment contracts and pooled separate accounts			\$ 14	14

Other assets					52		52	
Total net assets at fair value	\$	197	\$	606	\$	66	\$	869

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	Level 1	Level 2	Level 3	Total
ASSET CLASS				
Equity securities:				
Common U.S.	\$ 161			\$ 161
Common International	10			10
Debt securities:				
Corporate bonds U.S.		\$ 43		43
Corporate bonds International		7		7
Government and agency bonds U.S.		253		253
Government bonds International		1		1
State and municipal bonds		1		1
Mutual funds:				
Equity U.S.	18			18
Equity International	28			28
Fixed Income U.S.	2			2
Fixed Income International	2			2
Collective investment funds:				
Equity U.S.		28		28
Equity International		118		118
Convertible securities		45		45
Fixed income securities		16		16
Short-term investments		31		31
Real assets		113		113
Insurance investment contracts and pooled separate accounts			\$ 14	14
Other assets			66	66
Total net assets at fair value	\$ 221	\$ 656	\$ 80	\$ 957

The following table shows the changes in the fair values of our Level 3 plan assets for the years ended December 31, 2015, and December 31, 2014.

<i>in millions</i>	Insurance Investment Contracts and Pooled Separate Accounts	Other Assets	Total
Balance at December 31, 2013	\$ 13	\$ 62	\$ 75
Actual return on plan assets:			
Relating to assets held at reporting date	1	4	5
Balance at December 31, 2014	\$ 14	\$ 66	\$ 80
Sales		(14)	(14)
Balance at December 31, 2015	\$ 14	\$ 52	\$ 66

Other Postretirement Benefit Plans

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

The components of pre-tax AOCI not yet recognized as net postretirement benefit cost are shown below.

December 31,

<i>in millions</i>	2015	2014
Net unrecognized losses (gains)	\$ (5)	\$ 2
Net unrecognized prior service credit	(3)	(5)
Total unrecognized AOCI	\$ (8)	\$ (3)

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During 2016, we expect to recognize \$1 million of pre-tax AOCI resulting from prior service credit as a reduction of net postretirement benefit cost.

The components of net postretirement benefit cost and the amount recognized in OCI for all funded and unfunded plans are as follows:

December 31,

<i>in millions</i>	2015	2014	2013
Service cost of benefits earned	\$ 1	\$ 1	\$ 1
Interest cost on APBO	3	3	3
Expected return on plan assets	(3)	(3)	(3)
Amortization of prior service credit	(1)	(1)	(1)
Amortization of losses		(1)	
Net postretirement benefit cost		\$ (1)	
Other changes in plan assets and benefit obligations recognized in OCI:			
Net (gain) loss	\$ (6)	\$ 13	\$ (17)
Amortization of prior service credit	1	1	1
Amortization of losses		1	
Total recognized in comprehensive income	\$ (5)	\$ 15	\$ (16)
Total recognized in net postretirement benefit cost and comprehensive income	\$ (5)	\$ 14	\$ (16)

The information related to our postretirement benefit plans presented in the following tables is based on current actuarial reports using measurement dates of December 31, 2015, and December 31, 2014.

The following table summarizes changes in the APBO.

Year ended December 31,

<i>in millions</i>	2015	2014
APBO at beginning of year	\$ 79	\$ 65
Service cost	1	1
Interest cost	3	3
Plan participants contributions	2	2
Actuarial losses (gains)	(12)	15
Benefit payments	(6)	(7)
APBO at end of year	\$ 67	\$ 79

The following table summarizes changes in FVA.

Year ended December 31,

<i>in millions</i>	2015	2014
FVA at beginning of year	\$ 56	\$ 57
Employer contributions		(1)
Plan participants contributions	2	2
Benefit payments	(6)	(7)
Actual return on plan assets	(3)	5
FVA at end of year	\$ 49	\$ 56

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The following table summarizes the funded status of the postretirement plans, which corresponds to the amounts recognized in the balance sheets at December 31, 2015, and December 31, 2014.

December 31,

<i>in millions</i>	2015	2014
Funded status ^(a)	\$ (18)	\$ (23)
Accrued postretirement benefit cost recognized ^(b)	(18)	(23)

(a) The shortage of the FVA under the APBO.

(b) Consists entirely of noncurrent liabilities.

There are no regulations that require contributions to the VEBA trust that funds our retiree healthcare plan, so there is no minimum funding requirement. We are permitted to make discretionary contributions to the VEBA trust, subject to certain IRS restrictions and limitations. We anticipate that our discretionary contributions in 2016, if any, will be minimal.

At December 31, 2015, we expect to pay the benefits from all funded and unfunded other postretirement plans as follows: 2016 \$5 million; 2017 \$5 million; 2018 \$5 million; 2019 \$5 million; 2020 \$5 million; and \$22 million in the aggregate from 2021 through 2025.

To determine the APBO, we assumed discount rates of 4.00% at December 31, 2015, and 3.75% at December 31, 2014.

To determine net postretirement benefit cost, we assumed the following weighted-average rates.

Year ended December 31,	2015	2014	2013
Discount rate	3.75%	4.50%	3.50%
Expected return on plan assets	4.50	5.25	5.25

The realized net investment income for the postretirement healthcare plan VEBA trust is subject to federal income taxes, which are reflected in the weighted-average expected return on plan assets shown above.

Assumed healthcare cost trend rates do not have a material impact on net postretirement benefit cost or obligations since the postretirement plan has cost-sharing provisions and benefit limitations.

We estimate that we will recognize a credit of less than \$1 million in net postretirement benefit cost for 2016, compared to an expense of less than \$1 million for 2015 and a credit of \$1 million for 2014.

We estimate the expected returns on plan assets for the VEBA trust much the same way we estimate returns on our pension funds. The primary investment objectives of the VEBA trust are to obtain a market rate of return, take into consideration the safety and/or risk of the investment, and to diversify the portfolio in order to satisfy the trust's anticipated liquidity requirements. The following table shows the asset target allocations prescribed by the trust's

investment policy.

Asset Class	Target Allocation 2015
Equity securities	80 %
Fixed income securities	10
Convertible securities	5
Cash equivalents	5
Total	100 %

Investments consist of mutual funds and common investment funds that invest in underlying assets in accordance with the target asset allocations shown above. Exchange-traded mutual funds are valued using quoted prices and,

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therefore, are classified as Level 1. Investments in common investment funds are valued at their closing net asset value. Because net asset values are based primarily on observable inputs, most notably quoted prices for the underlying assets, these nonexchange-traded investments are classified as Level 2.

The following tables show the fair values of our postretirement plan assets by asset class at December 31, 2015, and December 31, 2014.

December 31, 2015

<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSET CLASS				
Mutual funds:				
Equity U.S.	\$ 18			\$ 18
Equity International	4			4
Fixed income U.S.	4			4
Common investment funds:				
Equity U.S.		\$ 16		16
Equity International		4		4
Convertible securities		2		2
Short-term investments		1		1
Total net assets at fair value	\$ 26	\$ 23		\$ 49

December 31, 2014

<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSET CLASS				
Mutual funds:				
Equity U.S.	\$ 18			\$ 18
Equity International	1			1
Fixed income U.S.	4			4
Fixed income International	1			1
Common investment funds:				
Equity U.S.		\$ 21		21
Equity International		7		7
Convertible securities		3		3
Short-term investments		1		1
Total net assets at fair value	\$ 24	\$ 32		\$ 56

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 introduced a prescription drug benefit under Medicare and prescribes a federal subsidy to sponsors of retiree healthcare benefit plans that offer prescription drug coverage that is actuarially equivalent to the benefits under Medicare Part D. Based on our application of the relevant regulatory formula, we determined that the prescription drug coverage related to our retiree healthcare benefit plan is not actuarially equivalent to the Medicare benefit for the vast majority of retirees. For the years ended

December 31, 2015, and December 31, 2014, we did not receive federal subsidies.

Employee 401(k) Savings Plan

A substantial number of our employees are covered under a savings plan that is qualified under Section 401(k) of the Internal Revenue Code. The plan permits employees to contribute from 1% to 100% of eligible compensation, with up to 6% being eligible for matching contributions. Commencing January 1, 2010, an automatic enrollment feature was added to the plan for all new employees. The initial default contribution percentage for employees is 2% and will increase by 1% at the beginning of each plan year until the default contribution is 10% for plan years on and after January 1, 2012. The plan also permits us to provide a discretionary annual profit sharing contribution. We accrued a 2% contribution for 2015 and made contributions of 2% for each of 2014 and 2013 on eligible compensation for employees eligible on the last business day of the

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respective plan years. We also maintain a deferred savings plan that provides certain employees with benefits they otherwise would not have been eligible to receive under the qualified plan once their compensation for the plan year reached the IRS contribution limits. Total expense associated with the above plans was \$79 million in 2015, \$73 million in 2014, and \$71 million in 2013.

17. Short-Term Borrowings

Selected financial information pertaining to the components of our short-term borrowings is as follows:

December 31,

<i>dollars in millions</i>	2015	2014	2013
FEDERAL FUNDS PURCHASED			
Balance at year end	\$ 20	\$ 18	\$ 18
Average during the year	195	32	164
Maximum month-end balance	678	36	1,486
Weighted-average rate during the year ^(a)	.14%	.10%	.09%
Weighted-average rate at December 31 ^(a)	.05	.08	.10
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS			
Balance at year end	\$ 352	\$ 557	\$ 1,516
Average during the year	437	1,150	1,638
Maximum month-end balance	589	1,519	2,099
Weighted-average rate during the year ^(a)	.00%	.16%	.13%
Weighted-average rate at December 31 ^(a)	.00	.01	.15
OTHER SHORT-TERM BORROWINGS			
Balance at year end	\$ 533	\$ 423	\$ 343
Average during the year	572	597	394
Maximum month-end balance	1,122	996	466
Weighted-average rate during the year ^(a)	1.52%	1.49%	1.89%
Weighted-average rate at December 31 ^(a)	1.78	1.58	2.00

(a) Rates exclude the effects of interest rate swaps and caps, which modify the repricing characteristics of certain short-term borrowings. For more information about such financial instruments, see Note 8 (Derivatives and Hedging Activities).

As described below and in Note 18 (Long-Term Debt), KeyCorp and KeyBank have a number of programs and facilities that support our short-term financing needs. Certain subsidiaries maintain credit facilities with third parties, which provide alternative sources of funding. KeyCorp is the guarantor of some of the third-party facilities.

Short-term credit facilities. We maintain cash on deposit in our Federal Reserve account, which has reduced our need to obtain funds through various short-term unsecured money market products. This account, which was maintained at \$1.9 billion at December 31, 2015, and the unpledged securities in our investment portfolio provide a buffer to address unexpected short-term liquidity needs. We also have secured borrowing facilities at the FHLB and the Federal Reserve Bank of Cleveland to satisfy short-term liquidity requirements. As of December 31, 2015, our unused secured borrowing capacity was \$18.9 billion at the Federal Reserve Bank of Cleveland and \$3.5 billion at the

FHLB.

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The following table presents the components of our long-term debt, net of unamortized discounts and adjustments related to hedging with derivative financial instruments. We use interest rate swaps and caps, which modify the repricing characteristics of certain long-term debt, to manage interest rate risk. For more information about such financial instruments, see Note 8 (Derivatives and Hedging Activities).

December 31,

<i>dollars in millions</i>	2015	2014
Senior medium-term notes due through 2021 ^(a)	\$ 2,819	\$ 2,575
1.066% Subordinated notes due 2028 ^(b)	162	162
6.875% Subordinated notes due 2029 ^(b)	114	113
7.750% Subordinated notes due 2029 ^(b)	147	147
Total parent company	3,242	2,997
Senior medium-term notes due through 2039 ^(c)	5,242	2,611
3.18% Senior remarketable notes due 2027 ^(d)	183	
7.413% Subordinated remarketable notes due 2027 ^(d)		272
4.95% Subordinated notes due 2015 ^(e)		251
5.45% Subordinated notes due 2016 ^(e)	503	524
5.70% Subordinated notes due 2017 ^(e)	215	222
4.625% Subordinated notes due 2018 ^(e)	103	103
6.95% Subordinated notes due 2028 ^(e)	298	298
Secured borrowing due through 2021 ^(f)	134	302
Federal Home Loan Bank advances due through 2036 ^(g)	166	200
Investment Fund Financing due through 2052 ^(h)	100	95
Total subsidiaries	6,944	4,878
Total long-term debt	\$ 10,186	\$ 7,875

(a) The senior medium-term notes had a weighted-average interest rate of 3.58% at December 31, 2015, and 3.89% at December 31, 2014. These notes had fixed interest rates at December 31, 2015, and December 31, 2014. These notes may not be redeemed prior to their maturity dates.

(b) See Note 19 (Trust Preferred Securities Issued by Unconsolidated Subsidiaries) for a description of these notes.

(c) Senior medium-term notes had weighted-average interest rates of 1.99% at December 31, 2015, and 1.84% at December 31, 2014. These notes had a combination of fixed and floating interest rates, and may not be redeemed prior to their maturity dates.

(d)

The subordinated remarketable notes were remarketed on May 22, 2015, as senior remarketable notes. These notes may be redeemed prior to their maturity date.

- (e) These notes are all obligations of KeyBank and may not be redeemed prior to their maturity dates.
- (f) The secured borrowing had weighted-average interest rates of 4.42% at December 31, 2015, and 4.41% at December 31, 2014. This borrowing is collateralized by commercial lease financing receivables, and principal reductions are based on the cash payments received from the related receivables. Additional information pertaining to these commercial lease financing receivables is included in Note 4 (Loans and Loans Held for Sale).
- (g) Long-term advances from the Federal Home Loan Bank had a weighted-average interest rate of 3.58% at December 31, 2015, and 3.47% at December 31, 2014. These advances, which had fixed interest rates, were secured by real estate loans and securities totaling \$251 million at December 31, 2015, and \$280 million at December 31, 2014.
- (h) Investment Fund Financing had a weighted-average interest rate of 1.94% at December 31, 2015, and 2.01% December 31, 2014.

At December 31, 2015, scheduled principal payments on long-term debt were as follows:

<i>in millions</i>	Parent	Subsidiaries	Total
2016		\$ 1,346	\$ 1,346
2017		280	280
2018	\$ 752	2,124	2,876
2019		786	786
2020	994	1,010	2,004
All subsequent years	1,496	1,398	2,894

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As described below, KeyBank and KeyCorp have a number of programs that support our long-term financing needs.

Global bank note program. In August 2012, KeyBank adopted a Global Bank Note Program permitting the issuance of up to \$20 billion of notes domestically and abroad. On September 29, 2015, KeyBank updated its Global Bank Note Program, authorizing the issuance of up to \$20 billion of notes domestically and abroad, separate from the \$20 billion authorized under the program in 2012. There will be no additional notes issued under the 2012 authorization. Under the program, KeyBank is authorized to issue notes with original maturities of seven days or more for senior notes or five years or more for subordinated notes. Notes may be denominated in U.S. dollars or in foreign currencies. Amounts outstanding under the program and any prior bank note programs are classified as long-term debt on the balance sheet.

Prior to updating its Global Bank Note Program on September 29, 2015, KeyBank issued the following notes under the Global Bank Note Program in 2014 and 2015: on November 24, 2014, \$750 million of 2.50% Senior Notes due December 15, 2019; on February 12, 2015, \$1 billion of 2.250% Senior Bank Notes due March 16, 2020; and on June 1, 2015, \$750 million of 1.70% Senior Bank Notes and \$250 million of Floating Rate Senior Notes each due June 1, 2018, and \$750 million of 3.30% Senior Bank Notes due June 1, 2025. At December 31, 2015, \$20 billion remained available for future issuance under the updated Global Bank Note Program.

Separately from the Global Bank Note Program, on May 22, 2015, KeyBank remarketed \$300 million of 3.18% Term Enhanced ReMarketable Securities senior debt.

KeyCorp shelf registration, including Medium-Term Note Program. KeyCorp has a shelf registration statement on file with the SEC under rules that allow companies to register various types of debt and equity securities without limitations on the aggregate amounts available for issuance. KeyCorp also maintains a Medium-Term Note Program that permits KeyCorp to issue notes with original maturities of nine months or more. On September 15, 2015, KeyCorp issued \$1 billion of 2.90% Medium-Term Notes due September 15, 2020. At December 31, 2015, KeyCorp had authorized and available for issuance up to \$3 billion of additional debt securities under the Medium-Term Note Program.

Issuances of capital securities or preferred stock by KeyCorp must be approved by the Board and cannot be objected to by the Federal Reserve.

19. Trust Preferred Securities Issued by Unconsolidated Subsidiaries

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

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

- required distributions on the trust preferred securities;
- the redemption price when a capital security is redeemed; and

the amounts due if a trust is liquidated or terminated.

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

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As of December 31, 2015, the trust preferred securities issued by the KeyCorp capital trusts represent \$85 million, or .8%, of our total qualifying Tier 1 capital, net of goodwill.

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

	Trust Preferred Securities,			Principal and Interest Rate of Trust Preferred Securities and		Maturity
	Discount	Net of Common Stock (a)	Net of Discount	(b) Debentures	(c)	of Trust Preferred Securities and Debentures
<i>dollars in millions</i>						
December 31, 2015						
KeyCorp Capital I	\$	156	\$ 6	\$ 162	1.066%	2028
KeyCorp Capital II		109	4	113	6.875	2029
KeyCorp Capital III		143	4	147	7.750	2029
Total	\$	408	\$ 14	\$ 422	4.961%	
December 31, 2014	\$	408	\$ 14	\$ 422	4.926%	

(a) The trust preferred securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of trust preferred securities carries an interest rate identical to that of the related debenture. Certain trust preferred securities include basis adjustments related to fair value hedges totaling \$68 million at both December 31, 2015, and December 31, 2014. See Note 8 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

(b) We have the right to redeem these debentures. If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (i) the principal amount, plus any accrued but unpaid interest, or (ii) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points for KeyCorp Capital II or 25 basis points for KeyCorp Capital III or 50 basis points in the case of redemption upon either a tax or a capital treatment event for either KeyCorp Capital II or KeyCorp Capital III, plus any accrued but unpaid interest. The principal amount of certain debentures includes basis adjustments related to fair value hedges totaling \$68 million at both December 31, 2015, and December 31, 2014. See Note 8 for an explanation of fair value hedges. The principal amount of debentures, net of discounts, is included in long-term debt on the balance sheet.

(c) The interest rates for the trust preferred securities issued by KeyCorp Capital II and KeyCorp Capital III are fixed. KeyCorp Capital I has a floating interest rate, equal to three-month LIBOR plus 74 basis points, that reprices

quarterly. The total interest rates are weighted-average rates.

20. Commitments, Contingent Liabilities and Guarantees

Obligations under Noncancelable Leases

We are obligated under various noncancelable operating leases for land, buildings and other property, consisting principally of data processing equipment. Rental expense under all operating leases totaled \$121 million in 2015, \$122 million in 2014, and \$122 million in 2013. Minimum future rental payments under noncancelable operating leases at December 31, 2015, are as follows: 2016 \$110 million; 2017 \$103 million; 2018 \$87 million; 2019 \$71 million; 2020 \$59 million; all subsequent years \$326 million.

Commitments to Extend Credit or Funding

Loan commitments provide for financing on predetermined terms as long as the client continues to meet specified criteria. These agreements generally carry variable rates of interest and have fixed expiration dates or termination clauses. We typically charge a fee for our loan commitments. Since a commitment may expire without resulting in a loan, our aggregate outstanding commitments may significantly exceed our eventual cash outlay.

Loan commitments involve credit risk not reflected on our balance sheet. We mitigate exposure to credit risk with internal controls that guide how we review and approve applications for credit, establish credit limits and, when necessary, demand collateral. In particular, we evaluate the creditworthiness of each prospective borrower

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on a case-by-case basis and, when appropriate, adjust the allowance for credit losses on lending-related commitments. Additional information pertaining to this allowance is included in Note 1 (Summary of Significant Accounting Policies) under the heading Liability for Credit Losses on Lending-Related Commitments, and in Note 5 (Asset Quality).

We also provide financial support to private equity investments, including existing direct portfolio companies and indirect private equity funds, to satisfy unfunded commitments. These unfunded commitments are not recorded on our balance sheet. Additional information on principal investing commitments is provided in Note 6 (Fair Value Measurements). Other unfunded equity investment commitments at December 31, 2015, and December 31, 2014, related to tax credit investments and were primarily attributable to LIHTC investments. Unfunded tax credit investments commitments are recorded on our balance sheet in other liabilities. Additional information on LIHTC commitments is provided in Note 11 (Variable Interest Entities).

The following table shows the remaining contractual amount of each class of commitment related to extending credit or funding principal investments as of December 31, 2015, and December 31, 2014. For loan commitments and commercial letters of credit, this amount represents our maximum possible accounting loss on the unused commitment if the borrower were to draw upon the full amount of the commitment and subsequently default on payment for the total amount of the then outstanding loan.

December 31,

<i>in millions</i>	2015	2014
Loan commitments:		
Commercial and other	\$ 28,053	\$ 25,979
Commercial real estate and construction	1,718	1,965
Home equity	7,220	7,164
Credit cards	3,603	3,762
Total loan commitments	40,594	38,870
When-issued and to be announced securities commitments	2	102
Commercial letters of credit	139	121
Purchase card commitments	163	63
Principal investing commitments	50	60
Tax credit investment commitments	410	309
Liabilities of certain limited partnerships and other commitments	1	1
Total loan and other commitments	\$ 41,359	\$ 39,526

Legal Proceedings

Checking Account Overdraft Litigation. KeyBank was named a defendant in a putative class action seeking to represent a national class of KeyBank customers allegedly harmed by KeyBank's overdraft practices. The case was transferred and consolidated for purposes of pretrial discovery and motion proceedings to a multidistrict proceeding styled *In Re: Checking Account Overdraft Litigation* pending in the United States District Court for the Southern

District of Florida (the District Court). KeyBank filed a notice of appeal in regard to the denial by the District Court of a motion to compel arbitration. In August 2012, the United States Court of Appeals for the Eleventh Circuit (the Eleventh Circuit) vacated the District Court s order denying KeyBank s motion to compel arbitration and remanded the case for further consideration. In June 2013, KeyBank filed with the District Court its renewed motion to compel arbitration and stay or dismiss litigation. The District Court granted KeyBank s renewed motion to compel arbitration and dismissed the case. The plaintiff appealed. On June 18, 2014, the Eleventh Circuit vacated the District Court s order granting KeyBank s renewed motion to compel arbitration and remanded the case to the District Court to address the issue of the enforceability of KeyBank s arbitration provision. On February 3, 2015, the District Court denied KeyBank s Second Renewed Motion to Compel Arbitration and Dismiss the Complaint. KeyBank has filed an appeal.

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

Guarantees

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

December 31, 2015	Maximum Potential Undiscounted Future Payments	Liability Recorded
<i>in millions</i>		
Financial guarantees:		
Standby letters of credit	\$ 11,447	\$ 62
Recourse agreement with FNMA	1,813	4
Return guarantee agreement with LIHTC investors	4	4
Written put options ^(a)	2,439	98
Total	\$ 15,703	\$ 168

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

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0% to 30% probability of payment), moderate (greater than 30% to 70% probability of payment), or high (greater than 70% probability of payment) to assess the payment/performance risk, and have determined that the payment/performance risk associated with each type of guarantee outstanding at December 31, 2015, is low.

Standby letters of credit. KeyBank issues standby letters of credit to address clients' financing needs. These instruments obligate us to pay a specified third party when a client fails to repay an outstanding loan or debt instrument or fails to perform some contractual nonfinancial obligation. Any amounts drawn under standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the same credit risk to us as a loan. At December 31, 2015, our standby letters of credit had a remaining weighted-average life of 2.9 years, with remaining actual lives ranging from less than 1 year to as many as 11 years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing program. FNMA delegates responsibility for originating, underwriting, and servicing mortgages, and we assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximates the fair value of our liability. At December 31, 2015, the outstanding commercial mortgage loans in this program had

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a weighted-average remaining term of 7.8 years, and the unpaid principal balance outstanding of loans sold by us as a participant was \$6.3 billion. The maximum potential amount of undiscounted future payments that we could be required to make under this program, as shown in the preceding table, is equal to approximately 30% of the principal balance of loans outstanding at December 31, 2015. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan; any loss we incur could be offset by the amount of any recovery from the collateral.

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

As shown in the previous table, KAHC maintained a reserve in the amount of \$4 million at December 31, 2015, which is sufficient to cover estimated future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounted future payments due to investors for the return on and of their investments.

These guarantees have expiration dates that extend through 2018, but KAHC has not formed any new partnerships under this program since October 2003. Additional information regarding these partnerships is included in Note 11 (Variable Interest Entities).

Written put options. In the ordinary course of business, we write put options for clients that wish to mitigate their exposure to changes in interest rates and commodity prices. At December 31, 2015, our written put options had an average life of 2.6 years. These instruments are considered to be guarantees, as we are required to make payments to the counterparty (the client) based on changes in an underlying variable that is related to an asset, a liability, or an equity security that the client holds. We are obligated to pay the client if the applicable benchmark interest rate or commodity price is above or below a specified level (known as the strike rate). These written put options are accounted for as derivatives at fair value, as further discussed in Note 8 (Derivatives and Hedging Activities). We mitigate our potential future payment obligations by entering into offsetting positions with third parties.

Written put options where the counterparty is a broker-dealer or bank are accounted for as derivatives at fair value but are not considered guarantees since these counterparties typically do not hold the underlying instruments. In addition, we are a purchaser and seller of credit derivatives, which are further discussed in Note 8.

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor (typically a client) fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees for one of two possible reasons: (i) either the risk profile of the debtor should provide an investment return, or (ii) we are supporting our underlying investment in the debtor. We do not hold collateral for the default guarantees. If we were required to make a payment under a guarantee, we would receive a pro rata share should the third party collect some or all of the amounts due from the debtor. At December 31, 2015, we had \$7 million default guarantees.

Other Off-Balance Sheet Risk

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

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

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

21. Accumulated Other Comprehensive Income

Our changes in AOCI for the years ended December 31, 2015, and December 31, 2014, are as follows:

<i>in millions</i>	Unrealized gains (losses) on securities available for sale	Unrealized gains (losses) on derivative financial instruments	Foreign currency translation adjustment	Net pension and postretirement benefit costs	Total
Balance at December 31, 2013	\$ (63)	\$ (11)	\$ 42	\$ (320)	\$ (352)
Other comprehensive income before reclassification, net of income taxes	59	43	(17)	(69)	16
Amounts reclassified from accumulated other comprehensive income, net of income taxes ^(a)		(40)	(3)	23	(20)
Net current-period other comprehensive income, net of income taxes	59	3	(20)	(46)	(4)
Balance at December 31, 2014	\$ (4)	\$ (8)	\$ 22	\$ (366)	\$ (356)
Other comprehensive income before reclassification, net of income taxes	(54)	87	(25)	(24)	(16)
Amounts reclassified from accumulated other comprehensive income, net of income taxes ^(a)		(59)	1	25	(33)
Net current-period other comprehensive income, net of income taxes	(54)	28	(24)	1	(49)
	\$ (58)	\$ 20	\$ (2)	\$ (365)	\$ (405)

Balance at December 31,
2015

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

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Our reclassifications out of AOCI for the years ended December 31, 2015, and December 31, 2014, are as follows:

Year ended December 31, 2015	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
<i>in millions</i>		
Unrealized gains (losses) on available for sale securities		
Realized gains	\$ 1	Other income
Realized losses	(1)	Other income
		Income (loss) from continuing operations before income taxes
		Income taxes
		Income (loss) from continuing operations
Unrealized gains (losses) on derivative financial instruments		
Interest rate	\$ 98	Interest income Loans
Interest rate	(4)	Interest expense Long-term debt
		Income (loss) from continuing operations before income taxes
	94	
	35	Income taxes
	\$ 59	Income (loss) from continuing operations
Foreign currency translation adjustment		
	\$ (1)	Corporate services income
		Income (loss) from continuing operations before income taxes
	(1)	
	(0)	Income taxes
	\$ (1)	Income (loss) from continuing operations
Net pension and postretirement benefit costs		
Amortization of losses	\$ (18)	Personnel expense
Settlement loss	(23)	Personnel expense
Amortization of prior service credit	1	Personnel expense
		Income (loss) from continuing operations before income taxes
	(40)	

(15)

Income taxes

\$

(25)

Income (loss) from continuing operations

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Year ended December 31, 2014

<i>in millions</i>	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains (losses) on derivative financial instruments		
Interest rate	\$ 67	Interest income Loans
Interest rate	(4)	Interest expense Long-term debt
	63	Income (loss) from continuing operations before income taxes
	23	Income taxes
	\$ 40	Income (loss) from continuing operations
Foreign currency translation adjustment		
	\$ 3	Corporate services income
	3	Income (loss) from continuing operations before income taxes
		Income taxes
	\$ 3	Income (loss) from continuing operations
Net pension and postretirement benefit costs		
Amortization of losses	\$ (15)	Personnel expense
Settlement loss	(23)	Personnel expense
Amortization of prior service credit	1	Personnel expense
	(37)	Income (loss) from continuing operations before income taxes
	(14)	Income taxes
	\$ (23)	Income (loss) from continuing operations

22. Shareholders Equity**Comprehensive Capital Plan**

As previously reported and as authorized by the Board and pursuant to our 2015 capital plan submitted to and not objected to by the Federal Reserve, we had authority to repurchase up to \$725 million of our common shares, which

include repurchases to offset issuances of common shares under our employee compensation plans. Common share repurchases under our 2015 capital plan began in the second quarter of 2015 and were suspended in the fourth quarter of 2015 due to the pending merger with First Niagara. Share repurchases are expected to be included in the upcoming 2016 CCAR submission.

During 2015, we repurchased \$252 million of common shares under our 2015 capital plan authorization. In addition, during the first quarter of 2015, we repurchased \$208 million of common shares under our 2014 capital plan for a total of \$460 million of common share repurchases during 2015.

Our Board declared a quarterly dividend of \$.065 per common share for the first quarter of 2015. Consistent with our 2015 capital plan, the Board declared a quarterly dividend of \$.075 per common share for the second, third, and fourth quarters of 2015, which brought our annual dividend to \$.29 per common share for 2015. Our Board will consider an additional potential increase in our quarterly common share dividend, up to \$.085 per share, in 2016 for the fifth quarter of the 2015 capital plan.

Preferred Stock

We made quarterly dividend payments of \$1.9375 per share on our Series A Preferred Stock during each quarter of 2015 for a total of \$23 million.

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Capital Adequacy

KeyCorp and KeyBank (consolidated) must meet specific capital requirements imposed by federal banking regulators. Sanctions for failure to meet applicable capital requirements may include regulatory enforcement actions that restrict dividend payments, require the adoption of remedial measures to increase capital, terminate FDIC deposit insurance, and mandate the appointment of a conservator or receiver in severe cases. In addition, failure to maintain a well capitalized status affects how regulators evaluate applications for certain endeavors, including acquisitions, continuation and expansion of existing activities, and commencement of new activities, and could make clients and potential investors less confident. As of December 31, 2015, KeyCorp and KeyBank (consolidated) met all regulatory capital requirements.

As previously indicated in the Supervision and Regulation section in Item 1 of this report under the heading Revised prompt corrective action capital category ratios, KeyBank (consolidated) qualified for the well capitalized prompt corrective action capital category at December 31, 2015, because its capital and leverage ratios exceeded the prescribed threshold ratios for that capital category and it was not subject to any written agreement, order, or directive to meet and maintain a specific capital level for any capital measure. Since that date, we believe there has been no change in condition or event that has occurred that would cause the capital category for KeyBank (consolidated) to change.

As previously indicated in the Supervision and Regulation section referenced above, BHCs are not assigned to any of the five prompt corrective action capital categories applicable to insured depository institutions. If, however, those categories applied to BHCs, we believe that KeyCorp would satisfy the criteria for a well capitalized institution at December 31, 2015, and since that date, we believe there has been no change in condition or event that has occurred that would cause such capital category to change.

Because the regulatory capital categories under the prompt corrective action regulations serve a limited supervisory function, investors should not use them as a representation of the overall financial condition or prospects of KeyBank or KeyCorp.

For additional information on capital adequacy, see Supervision and Regulation in Item 1 of this report.

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At December 31, 2015, Key and KeyBank (consolidated) had regulatory capital in excess of all current minimum risk-based capital (including all adjustments for market risk) and leverage ratio requirements as shown in the following table.

<i>dollars in millions</i>	Actual		To Meet Minimum Capital Adequacy Requirements		To Qualify as Well Capitalized Under Federal Deposit Insurance Act	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
TOTAL CAPITAL TO NET RISK-WEIGHTED ASSETS						
Key	\$ 11,671	12.97%	\$ 7,198	8.00%	N/A	N/A
KeyBank (consolidated)	10,454	12.34	6,776	8.00	\$ 8,470	10.00%
TIER 1 CAPITAL TO NET RISK-WEIGHTED ASSETS						
Key	\$ 10,212	11.35%	\$ 5,399	6.00%	N/A	N/A
KeyBank (consolidated)	9,197	10.86	5,082	6.00	\$ 5,082	6.00%
TIER 1 CAPITAL TO AVERAGE QUARTERLY TANGIBLE ASSETS						
Key	\$ 10,212	10.72%	\$ 3,811	4.00%	N/A	N/A
KeyBank (consolidated)	9,197	9.89	3,718	4.00	\$ 4,647	5.00%
December 31, 2014						
TOTAL CAPITAL TO NET RISK-WEIGHTED ASSETS						
Key	\$ 11,824	13.89%	\$ 6,808	8.00%	N/A	N/A
KeyBank (consolidated)	10,833	13.49	6,425	8.00	\$ 8,031	10.00%

**TIER 1 CAPITAL
TO NET
RISK-WEIGHTED
ASSETS**

Key	\$	10,124	11.90%	\$	3,404	4.00%	N/A	N/A
KeyBank (consolidated)		9,151	11.39		3,213	4.00	\$ 4,819	6.00%

**TIER 1 CAPITAL
TO AVERAGE
QUARTERLY
TANGIBLE
ASSETS**

Key	\$	10,124	11.26%	\$	2,698	3.00%	N/A	N/A
KeyBank (consolidated)		9,151	10.38		3,526	4.00	\$ 4,407	5.00%

23. Line of Business Results

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

Key Community Bank

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

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

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

Key Corporate Bank

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in seven industry sectors: consumer, energy, healthcare, industrial, public sector, real estate, and technology. Key Corporate Bank delivers a broad suite of banking and capital markets products to its

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clients, including syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, financial advisory, and public finance. Key Corporate Bank is also a significant servicer of commercial mortgage loans and a significant special servicer of CMBS. Key Corporate Bank delivers many of its product capabilities to clients of Key Community Bank.

Other Segments

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

Reconciling Items

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

The table on the following pages shows selected financial data for our major business segments for the years ended December 31, 2015, 2014, and, 2013.

The information was derived from the internal financial reporting system that we use to monitor and manage our financial performance. GAAP guides financial accounting, but there is no authoritative guidance for management accounting the way we use our judgment and experience to make reporting decisions. Consequently, the line of business results we report may not be comparable to line of business results presented by other companies.

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

- ⌚ Net interest income is determined by assigning a standard cost for funds used or a standard credit for funds provided based on their assumed maturity, prepayment, and/or repricing characteristics.
- ⌚ Indirect expenses, such as computer servicing costs and corporate overhead, are allocated based on assumptions regarding the extent that each line of business actually uses the services.
- ⌚ The consolidated provision for credit losses is allocated among the lines of business primarily based on their actual net loan charge-offs, adjusted periodically for loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology that we use to estimate our consolidated ALLL. This methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses.

As previously reported, in the third quarter of 2015, we enhanced the approach used to determine the commercial reserve factors used in estimating the quantitative component of the commercial ALLL. In addition, we began utilizing an enhanced framework to quantify commercial ALLL adjustments resulting from qualitative factors not fully captured within the statistical analysis of incurred loss. The enhancements of the methodology are described in Note 1 under the heading Allowance for Loan and Lease Losses. These methodology enhancements did not create a

significant difference in provisioning between segments.

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

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

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

Year ended December 31, <i>dollars in millions</i>	Key Community Bank			Key Corporate Bank		
	2015	2014	2013	2015	2014	2013
SUMMARY OF OPERATIONS						
Net interest income (TE)	\$ 1,486	\$ 1,446	\$ 1,531	\$ 885	\$ 840	\$ 795
Noninterest income	789	769	784	926	806	762
Total revenue (TE) ^(a)	2,275	2,215	2,315	1,811	1,646	1,557
Provision for credit losses	70	59	143	103	14	18
Depreciation and amortization expense	56	65	76	43	31	28
Other noninterest expense	1,742	1,706	1,782	923	833	779
Income (loss) from continuing operations before income taxes (TE)	407	385	314	742	768	732
Allocated income taxes (benefit) and TE adjustments	151	143	117	196	218	203
Income (loss) from continuing operations	256	242	197	546	550	529
Income (loss) from discontinued operations, net of taxes						
Net income (loss)	256	242	197	546	550	529
Less: Net income (loss) attributable to noncontrolling interests				1	2	
Net income (loss) attributable to Key	\$ 256	\$ 242	\$ 197	\$ 545	\$ 548	\$ 529
AVERAGE BALANCES						
^(b)						
Loans and leases	\$ 30,834	\$ 30,105	\$ 29,311	\$ 25,865	\$ 22,978	\$ 20,419
Total assets ^(a)	32,884	32,188	31,583	31,610	28,123	25,427
Deposits	51,164	50,327	49,806	19,042	17,083	15,972
OTHER FINANCIAL DATA						
Expenditures for additions to long-lived assets ^{(a), (b)}	\$ 44	\$ 8	\$ 6	\$ 8	\$ 9	\$ 9
Net loan charge-offs ^(b)	92	117	147	40	(18)	6
Return on average allocated equity ^(b)	9.52%	8.90%	6.71%	28.97%	33.72%	31.93%
	9.52	8.90	6.71	28.97	33.72	31.93

Return on average allocated equity

Average full-time equivalent employees ^(c)	7,351	7,563	8,243	2,100	1,975	1,886
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(a) Substantially all revenue generated by our major business segments is derived from clients that reside in the United States. Substantially all long-lived assets, including premises and equipment, capitalized software, and goodwill held by our major business segments, are located in the United States.

(b) From continuing operations.

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

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Items	Total Segments			Reconciling Items			Key		
	2013	2015	2014	2013	2015	2014			
7	\$ 21	\$ 2,365	\$ 2,313	\$ 2,347	\$ 11	\$ 4	\$ 1	\$ 2,376	\$ 2
0	222	1,898	1,805	1,768	(18)	(8)	(2)	1,880	1
7	243	4,263	4,118	4,115	(7)	(4)	(1)	4,256	4
5)	(26)	165	58	135	1	(1)	3	166	
2	12	107	108	116	148	152	144	255	
0	76	2,716	2,609	2,637	(131)	(108)	(85)	2,585	2
0	181	1,275	1,343	1,227	(25)	(47)	(63)	1,250	1
7	23	346	388	343	(15)	(38)	(49)	331	
3	158	929	955	884	(10)	(9)	(14)	919	
					1	(39)	40	1	
3	158	929	955	884	(9)	(48)	26	920	
5		4	7					4	
8	\$ 158	\$ 925	\$ 948	\$ 884	\$ (9)	\$ (48)	\$ 26	\$ 916	\$
8	\$ 3,268	\$ 58,551	\$ 55,611	\$ 52,998	\$ 43	\$ 68	\$ 56	\$ 58,594	\$ 55
5	26,655	91,431	86,426	83,665	597	653	512	92,028	87
9	453	70,673	67,989	66,231	(43)	(124)	(354)	70,630	67
		\$ 52	\$ 17	\$ 15	\$ 49	\$ 118	\$ 73	\$ 101	\$
4	\$ 15	141	113	168	1			142	
3%	30.27%	18.91%	19.86%	17.29%	(.17)%	(.16)%	(.27)%	8.61%	
3	30.27	18.91	19.86	17.29	(.16)	(.84)	.50	8.62	
2	74	9,465	9,580	10,203	4,018	4,273	4,580	13,483	13

Table of Contents**24. Condensed Financial Information of the Parent Company****CONDENSED BALANCE SHEETS****December 31,**

<i>in millions</i>	2015	2014
ASSETS		
Cash and due from banks	\$ 2,608	\$ 2,207
Short-term investments	58	31
Securities available for sale	10	22
Other investments	14	15
Loans to:		
Banks	250	90
Nonbank subsidiaries	187	211
Total loans	437	301
Investment in subsidiaries:		
Banks	9,955	9,998
Nonbank subsidiaries	703	632
Total investment in subsidiaries	10,658	10,630
Goodwill	167	244
Other intangible assets		11
Corporate-owned life insurance	206	212
Derivative assets	12	11
Accrued income and other assets	321	356
Total assets	\$ 14,491	\$ 14,040
LIABILITIES		
Accrued expense and other liabilities	\$ 503	\$ 511
Derivative liabilities		2
Long-term debt due to:		
Subsidiaries	423	422
Unaffiliated companies	2,819	2,575
Total long-term debt	3,242	2,997
Total liabilities	3,745	3,510
SHAREHOLDERS EQUITY^(a)	10,746	10,530
Total liabilities and shareholders equity	\$ 14,491	\$ 14,040

(a) See Key s Consolidated Statements of Changes in Equity.

CONDENSED STATEMENTS OF INCOME**Year ended December 31,**

<i>in millions</i>	2015	2014	2013
INCOME			
Dividends from subsidiaries:			
Bank subsidiaries	\$ 1,000	\$ 300	\$ 600
Nonbank subsidiaries	1		
Interest income from subsidiaries	10	16	26
Other income	20	15	15
Total income	1,031	331	641
EXPENSE			
Interest on long-term debt with subsidiary trusts	10	10	14
Interest on other borrowed funds	52	53	59
Personnel and other expense	73	40	65
Total expense	135	103	138
Income (loss) before income taxes and equity in net income (loss) less dividends from subsidiaries	896	228	503
Income tax (expense) benefit	39	45	33
Income (loss) before equity in net income (loss) less dividends from subsidiaries	935	273	536
Equity in net income (loss) less dividends from subsidiaries ^(a)	(15)	634	374
NET INCOME (LOSS)	920	907	910
Less: Net income attributable to noncontrolling interests	4	7	
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	\$ 916	\$ 900	\$ 910

(a) Includes results of discontinued operations described in Note 13 (Acquisitions and Discontinued Operations).

Table of Contents**CONDENSED STATEMENTS OF CASH FLOWS****Year ended December 31,**

<i>in millions</i>	2015	2014	2013
OPERATING ACTIVITIES			
Net income (loss) attributable to Key	\$ 916	\$ 900	\$ 910
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Deferred income taxes (benefit)	10	(8)	37
Stock-based compensation expense	9	14	11
Equity in net (income) loss less dividends from subsidiaries ^(a)	15	(634)	(374)
Other intangible asset amortization	2		
Net (increase) decrease in goodwill and other intangibles	86		
Net (increase) decrease in other assets	29	(53)	612
Net increase (decrease) in other liabilities	(7)	98	(154)
Other operating activities, net	(52)	24	(151)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,008	341	891
INVESTING ACTIVITIES			
Net (increase) decrease in short-term investments	(27)	4	2,096
Purchases of securities available for sale	(11)	(2)	(14)
Cash used in acquisitions		(114)	
Proceeds from sales, prepayments and maturities of securities available for sale	20		39
Net (increase) decrease in loans to subsidiaries	(146)	257	(4)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(164)	145	2,117
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	1,000		750
Payments on long-term debt	(750)		(750)
Repurchase of Treasury Shares	(448)	(484)	(474)
Net proceeds from the issuance of common shares and preferred stock	22	27	26
Cash dividends paid	(267)	(240)	(217)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(443)	(697)	(665)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	401	(211)	2,343
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	2,207	2,418	75
CASH AND DUE FROM BANKS AT END OF YEAR	\$ 2,608	\$ 2,207	\$ 2,418

(a) Includes results of discontinued operations described in Note 13 (Acquisitions and Discontinued Operations). KeyCorp paid interest on borrowed funds totaling \$112 million in 2015, \$114 million in 2014, and \$119 million in 2013.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, KeyCorp carried out an evaluation, under the supervision and with the participation of KeyCorp's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of KeyCorp's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)), to ensure that information required to be disclosed by KeyCorp in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to KeyCorp's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Based upon that evaluation, KeyCorp's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective, in all material respects, as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

No changes were made to KeyCorp's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, KeyCorp's internal control over financial reporting.

Reports Regarding Internal Controls

Management's Annual Report on Internal Control over Financial Reporting, the Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting, and the Report of Independent Registered Public Accounting Firm are included in Item 8 on pages 111, 112, and 113, respectively.

ITEM 9B. OTHER INFORMATION

Not applicable.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The names of our executive officers, and biographical information for each, is set forth in Item 1. Business of this report.

The other information required by this item will be set forth in the following sections of KeyCorp's Definitive Proxy Statement for the 2016 Annual Meeting of Shareholders to be held May 19, 2016 (the "2016 Proxy Statement") and these sections are incorporated herein by reference:

- ↳ Proposal One: Election of Directors

 - ↳ Ownership of KeyCorp Equity Securities Section 16(a) Beneficial Ownership Reporting Compliance

 - ↳ Corporate Governance Documents Code of Ethics

 - ↳ The Board of Directors and Its Committees Audit Committee
- KeyCorp expects to file the 2016 Proxy Statement with the SEC on or about April 6, 2016. Any amendment to, or waiver from a provision of, the Code of Ethics that applies to its Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer, or any other executive officer or director, will be promptly disclosed on its website (www.key.com/ir) as required by laws, rules and regulations of the SEC.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be set forth in the following sections of the 2016 Proxy Statement and these sections are incorporated herein by reference:

- ↳ Compensation Discussion and Analysis

 - ↳ Compensation of Executive Officers and Directors

 - ↳ Compensation and Organization Committee Report

 - ↳ The Board of Directors and Its Committees Oversight of Compensation Related Risks
- ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this item will be set forth in the section captioned Ownership of KeyCorp Equity Securities contained in the 2016 Proxy Statement, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be set forth in the following sections of the 2016 Proxy Statement and these sections are incorporated herein by reference:

↳ The Board of Directors and Its Committees Director Independence

↳ The Board of Directors and Its Committees Related Party Transactions

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be set forth in the sections captioned Audit Matters Ernst & Young s Fees contained in the 2016 Proxy Statement, and is incorporated herein by reference.

Table of Contents**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS****(a) (1) Financial Statements**

The following financial statements of KeyCorp and its subsidiaries, and the auditor's report thereon are filed as part of this report under Item 8. Financial Statements and Supplementary Data:

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	113
<u>Consolidated Financial Statements</u>	114
<u>Consolidated Balance Sheets at December 31, 2015, and 2014</u>	114
<u>Consolidated Statements of Income for the Years Ended December 31, 2015, 2014, and 2013</u>	115
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014, and 2013</u>	116
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2015, 2014, and 2013</u>	117
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014, and 2013</u>	118
<u>Notes to Consolidated Financial Statements</u>	119

(a) (2) Financial Statement Schedules

All financial statement schedules for KeyCorp and its subsidiaries have been included in this Form 10-K in the consolidated financial statements or the related footnotes, or they are either inapplicable or not required.

(a) (3) Exhibits*

- 2.1 Agreement and Plan of Merger between KeyCorp and First Niagara Financial Group, Inc., dated as of October 30, 2015, filed as Exhibit 2.1 to Form 8-K filed on November 2, 2015.*
- 3.1 Amended and Restated Articles of Incorporation of KeyCorp (effective August 12, 2009), filed as Exhibit 3.1 to Form 10-K for the year ended December 31, 2014.*
- 3.2 Amended and Restated Regulations of KeyCorp, effective May 19, 2011, filed as Exhibit 3.2 to Form 10-Q for the quarter ended June 30, 2011.*
- 10.1 Form of Award of Non-Qualified Stock Options (effective June 12, 2009), filed as Exhibit 10.1 to Form 10-K for the year ended December 31, 2014.*
- 10.2 Form of Award of KeyCorp Executive Officer Grants (Award of Cash Performance Shares and Above-Target Performance Shares) (2013-2015), filed as Exhibit 10.6 to Form 10-K for the year ended December 31, 2012.*
- 10.3 Form of Performance Shares Award Agreement (2014-2016), filed as Exhibit 10.5 to Form 10-K for the year ended December 31, 2013.*
- 10.4 Form of Performance Shares Award Agreement (2015-2017), filed as Exhibit 10.5 to Form 10-K for the year ended December 31, 2014.*
- 10.5 Form of Performance Shares Award Agreement (2016-2018).
- 10.6

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- Form of Award of KeyCorp Executive Officer Grants (Award of Restricted Stock Units) (effective March 1, 2013) filed as Exhibit 10.7 to Form 10-K for the year ended December 31, 2012.*
- 10.7 Form of Award of KeyCorp Executive Officer Grants (Award of Stock Options) (effective March 1, 2013), filed as Exhibit 10.8 to Form 10-K for the year ended December 31, 2012.*
- 10.8 Form of Restricted Stock Unit Award Agreement under KeyCorp 2013 Equity Compensation Plan, filed as Exhibit 10.1 to Form 10-Q for the second quarter ended June 30, 2013.*
- 10.9 Letter Agreement between KeyBank National Association and William R. Koehler, dated as of April 17, 2014, filed as Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2014.*

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- 10.10 Amendment to April 17, 2014 Letter Agreement between KeyBank National Association and William R. Koehler, dated as of May 6, 2014, filed as Exhibit 10.2 to Form 10-Q for the quarter ended June 30, 2014.*
- 10.11 Form of Change of Control Agreement (Tier I) between KeyCorp and Certain Executive Officers of KeyCorp, dated as of March 8, 2012, filed as Exhibit 10.1 to Form 8-K filed March 8, 2012.*
- 10.12 Form of Change of Control Agreement (Tier II Executives) between KeyCorp and Certain Executive Officers of KeyCorp, dated as of April 15, 2012, filed as Exhibit 10.1 to Form 10-Q for the quarter ended March 31, 2012.*
- 10.13 KeyCorp Annual Incentive Plan (January 1, 2011 Restatement), filed as Exhibit 10.15 to Form 10-K for the year ended December 31, 2011.*
- 10.14 KeyCorp 2011 Annual Performance Plan, filed as Appendix A to Schedule 14A filed on April 5, 2011.*
- 10.15 KeyCorp 2004 Equity Compensation Plan (effective March 18, 2004), filed as Exhibit 10.17 to Form 10-K for the year ended December 31, 2014.*
- 10.16 KeyCorp 2010 Equity Compensation Plan (effective March 11, 2010).
- 10.17 Director Deferred Compensation Plan (May 18, 2000 Amendment and Restatement), filed as Exhibit 10.21 to Form 10-K for the year ended December 31, 2013.*
- 10.18 Amendment to the Director Deferred Compensation Plan (effective December 31, 2004), filed as Exhibit 10.20 to Form 10-K for the year ended December 31, 2014.*
- 10.19 KeyCorp Amended and Restated Second Director Deferred Compensation Plan (effective September 18, 2013), filed as Exhibit 10.23 to Form 10-K for the year ended December 31, 2013.*
- 10.20 KeyCorp Directors' Deferred Share Sub-Plan (effective September 18, 2013), filed as Exhibit 10.25 to Form 10-K for the year ended December 31, 2013.*
- 10.21 KeyCorp Excess Cash Balance Pension Plan (effective January 1, 1998), filed as Exhibit 10.26 to Form 10-K for the year ended December 31, 2013.*
- 10.22 First Amendment to the KeyCorp Excess Cash Balance Pension Plan (effective July 1, 1999), filed as Exhibit 10.27 to Form 10-K for the year ended December 31, 2013.*
- 10.23 Second Amendment to the KeyCorp Excess Cash Balance Pension Plan (effective January 1, 2003), filed as Exhibit 10.28 to Form 10-K for the year ended December 31, 2013.*
- 10.24 Restated Amendment to KeyCorp Excess Cash Balance Pension Plan (effective December 31, 2004), filed as Exhibit 10.26 to Form 10-K for the year ended December 31, 2014.*
- 10.25 Disability Amendment to KeyCorp Excess Cash Balance Pension Plan (effective December 31, 2007), filed as Exhibit 10.27 to Form 10-K for the year ended December 31, 2012.*
- 10.26 KeyCorp Second Excess Cash Balance Pension Plan (effective February 8, 2010), filed as Exhibit 10.28 to Form 10-K for the year ended December 31, 2014.*
- 10.27 Trust Agreement for certain amounts that may become payable to certain executives and directors of KeyCorp, dated April 1, 1997, and amended as of August 25, 2003, filed as Exhibit 10.32 to Form 10-K for the year ended December 31, 2013.*
- 10.28 KeyCorp 2013 Equity Compensation Plan (effective March 13, 2014), filed as Appendix A to Schedule 14A filed on March 29, 2013.*
- 10.29 KeyCorp Deferred Savings Plan (effective January 1, 2015), filed as Exhibit 10.31 to Form 10-K for the year ended December 31, 2014.*
- 10.30 KeyCorp Deferred Equity Allocation Plan (effective May 22, 2003), filed as Exhibit 10.32 to Form 10-K for the year ended December 31, 2014.*
- 10.31 Letter Agreement between Robert Morris and KeyCorp, dated as of May 28, 2015, filed as Exhibit 10.1 to Form 10-Q for the quarter ended June 30, 2015.*
- 10.32 Form of Merger Integration Performance Shares Award Agreement.
- 12 Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.

21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm.
24	Power of Attorney.

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31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Label Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

* Incorporated by reference. Copies of these Exhibits have been filed with the SEC. Exhibits that are not incorporated by reference are filed with this report. Shareholders may obtain a copy of any exhibit, upon payment of reproduction costs, by writing KeyCorp Investor Relations, 127 Public Square, Mail Code OH-01-27-0737, Cleveland, OH 44114-1306.

Certain schedules to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and KeyCorp agrees to furnish supplementally to the SEC a copy of any omitted schedule upon request.

KeyCorp hereby agrees to furnish the SEC upon request, copies of instruments, including indentures, which define the rights of long-term debt security holders. All documents listed as Exhibits 10.1 through 10.32 constitute management contracts or compensatory plans or arrangements.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the date indicated.

KEYCORP

/s/ Donald R. Kimble
 Donald R. Kimble
 Chief Financial Officer (Principal Financial Officer)
 February 24, 2016

/s/ Douglas M. Schosser
 Douglas M. Schosser
 Chief Accounting Officer (Principal Accounting Officer)
 February 24, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title
*Beth E. Mooney	Chairman, Chief Executive Officer (Principal Executive Officer), President and Director
*Donald R. Kimble	Chief Financial Officer (Principal Financial Officer)
*Douglas M. Schosser	Chief Accounting Officer (Principal Accounting Officer)
*Bruce D. Broussard	Director
*Joseph A. Carrabba	Director
*Charles P. Cooley	Director
*Alexander M. Cutler	Director
*H. James Dallas	Director
*Elizabeth R. Gile	Director
*Ruth Ann M. Gillis	Director
*William G. Gisel, Jr.	Director
*Richard J. Hipple	Director
*Kristen L. Manos	Director
*Demos Parneros	Director
*Barbara R. Snyder	Director
*David K. Wilson	Director

/s/ Paul N. Harris
* By Paul N. Harris, attorney-in-fact
February 24, 2016