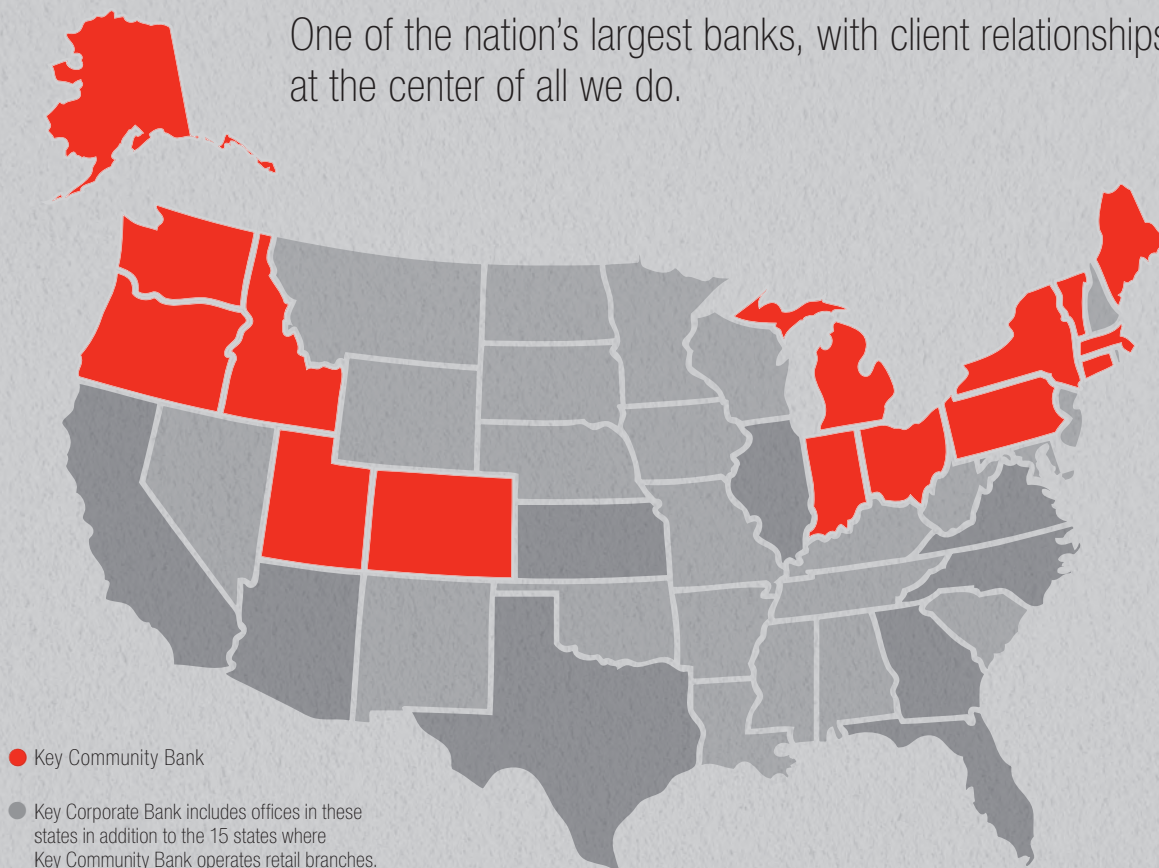




One of the nation's largest banks, with client relationships at the center of all we do.



\$136 Billion in assets



\$86 Billion
in loans



\$104 Billion
in deposits

8 consecutive "Outstanding"
ratings under the Community
Reinvestment Act

3 Million
clients

1,500 +
ATMs



1,200 +
Branches



Award-winning
culture of diversity,
inclusion, and
philanthropy



Innovative new online and mobile
banking platform



Use the red key.

To our fellow shareholders: 2016 was a successful and transformational year for our company. We achieved our financial goals, closed the largest acquisition in Key's history, and saw our stock price increase 39%, outperforming the S&P Bank Index, which was up 21%.

Our results demonstrate our ability to deliver on the commitments we have made – to our clients, employees, communities, and to you, our shareholders. I would like to thank you for your support this past year and welcome our new shareholders, many of whom have joined us as a result of the First Niagara acquisition.



As I look across the organization, our businesses have clear momentum, which is reflected in the results of both our Community Bank and Corporate Bank. With our relationship strategy at the center of all we do, our teams delivered targeted solutions to clients, with enhanced products and capabilities that resulted in new and expanded relationships.

At the same time, we acquired First Niagara Financial Group, welcoming one million new clients to Key, along with expanded capabilities and a stronger market presence. We completed the successful integration and conversion of clients, systems, and branches during the year, adding \$23 billion in loans, \$27 billion in deposits, and more than 5,000 team members.

And while First Niagara makes Key a bigger company, more importantly, it makes us a better company. We now have the opportunity to accelerate our performance beyond what could have been done on a standalone basis, with both improved efficiency and higher returns.

I am incredibly proud of our team for completing the acquisition and conversion of First Niagara in less than one year from our announcement, which included securing all required regulatory approvals. This achievement is testament to the level of teamwork, dedication, and commitment our employees have to ensuring Key's success.

In 2016, Key's earnings per common share, excluding merger-related charges, increased 8%^(a) compared to 2015. This increase reflects solid performance in our core businesses, as well as growth from the First Niagara

acquisition. 2016 also marked the third consecutive year of pre-provision net revenue growth, which was up 23%^(a) from 2015, excluding merger-related charges, as growth in revenue outpaced expenses.

Key delivered total shareholder return of 42% in 2016, which included the impact of higher common share dividends and exceeded the S&P Bank Index return of 24%. 2016 marked our sixth consecutive year of higher common share dividends.

In last year's letter, I discussed our efforts to build on our strong results and successfully integrate First Niagara. I'm pleased to report that we have delivered on these commitments, and on the following pages we offer a closer look at the hard work of our team to continue to grow our businesses and position Key well for the future.

Looking to 2017, I remain both optimistic and confident. Our core businesses have momentum and are producing results, the investments we have made are generating returns, and the First Niagara acquisition will continue to provide opportunities to accelerate our performance. I am also incredibly proud of our highly engaged, talented, and diverse teammates, who are collectively committed to helping our clients and communities thrive.

Key has demonstrated the ability to grow in a challenging environment and is now uniquely positioned to build on the progress we have made. We have clear and compelling strategic priorities, which include growing relationships, effectively managing risk and capital, generating strong returns, and achieving our financial targets.

Key remains focused forward, and I am energized by the opportunities we see ahead. We remain committed to driving results and maximizing long-term value for you, our shareholders. Thank you for your continued support.

Sincerely,

Beth E. Mooney
Chairman and Chief Executive Officer
March 2017

(a) Non-GAAP measure; see Figure 4 entitled "GAAP to Non-GAAP Reconciliations" on page 39 of attached 2016 Form 10-K for a reconciliation to the comparable GAAP measure.

Key's business momentum and investment in talent, products, and capabilities contributed to another strong year of client growth. In addition to one million new clients from First Niagara, Key grew net retail households by over 45,000 and added or expanded over 1,200 relationships in the Corporate Bank.

 Omar
Kalim

45,000+

Net Household Growth



Use the red key.

Business Momentum: Across the organization, Key's businesses are growing and generating strong results. We are continuing to make strategic investments, while at the same time improving productivity, efficiency, and overall returns, despite a number of environmental challenges.

Over the past several years, our industry has faced low interest rates, slow economic growth, and higher regulatory costs. Despite these challenges, the investments we have made, as well as our core business momentum, have driven our growth and position us to continue to improve profitability.

Strategic Investments

The investments we have made in talent, products, and capabilities demonstrate our commitment to putting the client at the center of all we do and have helped us to build momentum in attracting new clients and expanding existing relationships.

Central to our efforts has been investment in our people. Over the past three years, we have increased the number of senior bankers in our Commercial Bank and Corporate Bank by 35%, and we welcomed new teammates from First Niagara in the second half of 2016. We also added talent across our organization to strengthen our ability to design and deliver products and services that are tailored to the needs of our clients.

In addition to our talent, we have continued to enhance our products and capabilities, including commercial payments. With an expanded commercial card offering and the launch of our next generation treasury portal, we are growing in meaningful ways with our clients. Early in 2017, we announced a strategic partnership in merchant services that reinforces our focus on providing clients with innovative new tools to better manage their businesses.

We also expanded our payment offerings for consumers, providing access to fast, simple, and secure digital payments across devices. In 2016, we added Masterpass™ by Mastercard® and Android Pay™ to our lineup, which includes two payment options we introduced in 2015: Samsung Pay™ and Apple Pay™.

During the year, we launched an innovative digital platform for online and mobile banking, enabling a faster, more intuitive, and personalized experience that

helps clients manage their finances. This platform was launched six months ahead of schedule to align with the First Niagara client conversion, ensuring that we delivered a state-of-the-art digital experience to our one million new clients during their first interactions with Key.

Finally, we continued to make investments to protect our clients and their information, including enhanced security tools and bolstering our compliance and regulatory processes and infrastructure.

Commercial Businesses

Key experienced robust growth in its commercial businesses in 2016, which translated into more clients, loans, and fee income. In the Corporate Bank, we added or expanded more than 1,200 relationships during the year in addition to those that joined us from the First Niagara acquisition. Growth in commercial loans remained strong, benefitting from both momentum in our core businesses and First Niagara. We generated double-digit percentage growth in 18 of 20 quarters for commercial, financial, and agricultural loans leading up to the acquisition.

Along with growth in clients and loans, Key's fee-based businesses also delivered notable performance in 2016. Investment banking and debt placement fees totaled \$482 million for the year, a record result that was up 8% from 2015, despite market weakness early in 2016. Commercial client growth and activity also contributed to record results in cards and payments and corporate services.

Consumer Businesses

Our consumer businesses have made significant progress in recent years, with solid results in 2016 and momentum resulting from our efforts to improve both productivity and efficiency.

Retail client growth was impressive in 2016, with more than 45,000 net new households in addition to the new First Niagara clients we welcomed.



Use the red key.

Not only are we adding clients and gaining market share, but our clients are doing more with us. Throughout 2016, the number of fully engaged relationships in our retail franchise continued to climb higher, as we aimed to fulfill clients' checking, saving, and borrowing needs. Credit card and debit card activity continued to grow as well, and our online and mobile penetration increased throughout the year.

As our relationships have grown, retail deposit balances have also moved higher across our franchise, including growth in all of our First Niagara markets from the time of conversion through year-end. By the end of 2016, we had achieved eight consecutive quarters of year-over-year average deposit growth in our Community Bank. We also saw improved performance in a number of our fee-based businesses in 2016. Cards and payments income and service charges on deposit accounts both increased by double-digit percentages compared to 2015, reflecting core business momentum and the acquisition.

Disciplined Risk and Capital Management

Foundational to all that we do is maintaining a strong balance sheet, with a moderate risk profile and a solid capital base. This has allowed us to grow and invest in our businesses, while also returning a portion of our capital to shareholders in the form of dividends and share repurchases.

Our consistent and disciplined approach to risk management, along with our talented and experienced team, allowed us to appropriately assess and mitigate risk associated with our acquisition, receive all required regulatory approvals, and execute the integration.

Key continues to take a disciplined, enterprise-wide approach to managing credit quality and evaluating our overall risk position. In 2016, our primary credit quality measures remained strong and our net charge-off ratio of .29% remained below our targeted range.

Our capital position remained solid in 2016, with a Common Equity Tier 1 ratio of 9.5%^(a) at year-end, and our disciplined approach to capital management continued to include returning a portion of our capital to shareholders. We increased our common share dividend by 13% in the second quarter of 2016, to \$.085 per share. Our quarterly common share dividend has now grown at an annual growth rate of 15% over the last three years.

During the year, we also received no objection from the Federal Reserve to our 2016 capital plan, which included an increased dividend of 12% in the second quarter of 2017, to \$.095 per common share, pending approval by our Board of Directors, and up to \$350 million in common share repurchases. Following the acquisition of First Niagara, we reinitiated our common share repurchase program and repurchased a total of \$133 million in common shares during 2016.



Across our franchise, deposit balances moved higher in 2016. Key Community Bank achieved eight consecutive quarters of average deposit growth compared to the prior year. We also saw retail deposit growth in all of our First Niagara markets from the time of conversion through the end of the year.

(a) Non-GAAP measure; see Figure 4 entitled "GAAP to Non-GAAP Reconciliations" on page 39 of attached 2016 Form 10-K for a reconciliation to the comparable GAAP measure.

Five-year Financial Highlights

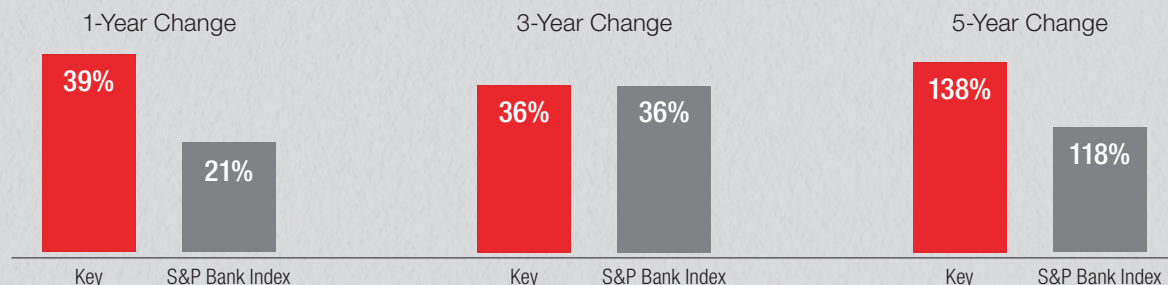
YEAR ENDED DECEMBER 31, (dollars in millions, except per share amounts)	2016	2015	2014	2013	2012
Total revenue (TE) ^(a)	\$ 5,024	\$ 4,256	\$ 4,114	\$ 4,114	\$ 4,144
Noninterest expense ^(a)	3,756	2,840	2,761	2,812	2,834
Provision for credit losses ^(a)	266	166	57	138	213
Income (loss) from continuing operations attributable to Key	790	915	939	870	835
Income (loss) from continuing operations attributable to Key common shareholders	753	892	917	847	813
Income (loss) from continuing operations attributable to Key common shareholders, per common share— assuming dilution	.80	1.05	1.04	.93	.86
First Niagara merger-related charges ^(b)	474	6	—	—	—
Earnings per common share impact of merger-related charges ^(b)	(.33)	—	—	—	—
Income (loss) from continuing operations attributable to Key common shareholders, excluding merger-related charges ^(b)	1,052	896	917	847	813
Earnings per common share from continuing operations attributable to Key common shareholders, excluding merger-related charges ^(b)	1.13	1.05	1.04	.93	.86
Return on average total assets ^(a)	.70%	.99%	1.08%	1.03%	1.03%
Return on average total assets, excluding merger-related charges ^{(a)(b)}	.97	.98	1.08	1.03	1.03
Return on average tangible common equity ^(a)	7.39	9.64	10.04	9.45	9.16
Return on average tangible common equity, excluding merger-related charges ^{(a)(b)}	10.32	9.69	10.04	9.45	9.16
Cash efficiency ratio ^{(a)(b)}	73.7	65.9	66.2	67.3	67.8
Cash efficiency ratio, excluding merger-related charges ^{(a)(b)}	64.3	65.9	66.2	67.3	67.8
Cash dividends paid (per common share)	.33	.29	.25	.215	.18
Book value at year end	12.58	12.51	11.91	11.25	10.78
Tangible book value at year end	9.99	11.22	10.65	10.11	9.67
Market price at year end	18.27	13.19	13.90	13.42	8.42
AT DECEMBER 31,					
Loans	\$ 86,038	\$ 59,876	\$ 57,381	\$ 54,457	\$ 52,822
Total assets	136,453	95,131	93,820	92,934	89,236
Deposits	104,087	71,046	71,998	69,262	65,993
Key shareholders' equity	15,240	10,746	10,530	10,303	10,271
Common shares outstanding (000)	1,079,314	835,751	859,403	890,724	925,769
Branches	1,217	966	994	1,028	1,088
Average full-time equivalent employees	15,700	13,483	13,853	14,783	15,589

TE = taxable equivalent

(a) From continuing operations

(b) Non-GAAP measure; see Figure 4 entitled "GAAP to Non-GAAP Reconciliations" on page 39 of attached 2016 Form 10-K for a reconciliation to the comparable GAAP measure.

2016 Stock Price Performance as of 12/31/2016





Use the red key.

First Niagara: Key successfully completed the acquisition of First Niagara in 2016, following our announcement in October 2015. The acquisition accelerates our momentum and materially expands Key's businesses and client base with the addition of one million new clients, \$23 billion in loans, and \$27 billion in deposits.

First Niagara also gives Key leading market share in Upstate New York and entrance into attractive new markets, including Pittsburgh, Philadelphia, Hartford, and New Haven. In total, the acquisition boosted Key's network by over 300 branches and approximately 400 ATMs.

During the year, we received all required regulatory approvals and completed the merger on August 1. In October, we converted clients, systems, and branches. Central to our conversion efforts was client experience, with focus on ensuring a seamless transition for the one million clients coming to Key.

Throughout the year, employees executed on cross-functional, detailed merger integration plans that were highly coordinated and leveraged top talent from both Key and First Niagara. Integration plans included the retention of First Niagara employees, which was consistent with Key's philosophy that employees are foundational for client growth and retention.

Key began to execute on cost savings resulting from the acquisition in 2016, with increased confidence in our ability to exceed our target of \$400 million in cost savings, which represented approximately 40% of First Niagara's cost base. Our efforts during the year included consolidating branches and reducing the number of third-party relationships and vendor contracts. We eliminated many of First Niagara's outsourced systems and technology as information was brought onto Key's platforms. By year-end, we had realized more than 25% of our total targeted cost savings and expect to reach the full amount by the middle of 2017. Achieving these cost savings will drive our ability to reach our financial targets for the acquisition, which include reducing our cash efficiency ratio by 300 basis points and improving our return on tangible common equity by 200 basis points.

While not included in our targets, we also continue to have confidence in the incremental revenue synergies created by the acquisition. During the year, we developed targeted client outreach strategies to retain and grow relationships. Together, our teams actively called on clients to best show the value of the combined organization. And we are seeing early traction as clients are choosing to do more with Key because of our broader products and capabilities. We saw retail deposit growth in every First Niagara market from the conversion through year-end, and our commercial payments pipeline far exceeds historical levels. Our new clients are taking advantage of our offerings in areas like purchase card, foreign exchange, and accounts payable automation. Additionally, we are beginning to see early results from both our commercial mortgage banking team and our new residential mortgage business model.

The hard work of our 18,000+ team members enabled Key's success in 2016. By working directly on the integration and also supporting our ongoing business activities, our team ensured that Key is well positioned to deliver on our commitments and achieve the value of the acquisition.



Key held events across its markets to welcome more than 5,000 First Niagara team members to Key, a testament to Key's philosophy that employees are foundational for client growth and retention.



The acquisition of First Niagara strengthened Key's presence in Upstate New York and provided entrance into attractive new markets in Pennsylvania, Massachusetts, and Connecticut, boosting Key's retail network by over 300 branches and approximately 400 ATMs.

1 Million
New Clients

In 2016, Key announced our National Community Benefits Plan, a groundbreaking commitment that will lend and invest \$16.5 billion in our communities beginning in 2017. This five-year plan will center on mortgage and consumer loans, small business lending, community development lending and investment, and philanthropy.

Thank you
KeyBank 

\$16.5 Billion
In Community Investments



Use the red key.

Corporate Responsibility and Governance: Key is committed to the highest standards of corporate responsibility and governance, and we believe our long-term success is dependent upon our continued focus in both of these areas.

Corporate Responsibility

Our purpose is to help our clients and communities thrive, and we are more focused than ever on participating in the economic expansion, revitalization, and resurgence of the communities we so proudly serve. Beyond traditional banking, we do this best through philanthropy, sustainability, diversity and inclusion, and community development.

In 2016, we unveiled our National Community Benefits Plan. The five-year plan commits \$16.5 billion to our communities beginning in 2017 and will center on mortgage and consumer loans, small business lending, community development lending and investment, and philanthropy.

Our long-standing commitment to corporate responsibility includes \$2 billion in loans and investments dedicated to offering fair and equitable products to underserved families and communities. As evidence of our leadership in this area, we have received eight consecutive “Outstanding” ratings under the Community Reinvestment Act (CRA) from the Office of the Comptroller of the Currency.

Our KeyBank Foundation supports transformative philanthropy that creates thriving students, thriving neighborhoods, and a thriving workforce. In 2016, KeyBank Foundation contributions totaled more than \$20 million. Additionally, in May 2016, our employees once again demonstrated their commitment to our communities by participating in our 26th annual Neighbors Make the Difference® Day. Key employees volunteered on nearly 700 projects across our footprint on a wide array of projects helping local nonprofit agencies.

The accolades Key received in 2016 are clear testament to our focus on diversity and inclusion. Key received its ninth perfect score on the Human Rights Campaign’s 2017 Corporate Equality Index. We were recognized for the third consecutive time as one of America’s 50 most community-minded companies by The Civic 50. In addition, we were named for the seventh time as one of DiversityInc’s Top 50 Companies for Diversity. Finally, we earned our second



Margot Copeland, Director of Philanthropy and Civic Engagement, took part in a news conference in May 2016 to announce a \$1 million grant to Say Yes to Buffalo, whose mission is to strengthen the Western New York economy by investing in the education of Buffalo’s future workforce. The announcement reaffirmed Key’s commitment to helping our communities thrive.

consecutive Military Friendly® Employer designation by *GI Jobs* magazine.

At Key, we are also focused on building a sustainable enterprise, both for our company as well as for our clients. Key employees are supported and encouraged to advance sustainability efforts and drive improvements in business operations.



From Maine to Alaska, thousands of Key employees volunteered for more than 700 service projects in 2016 on Neighbors Make The Difference® Day, Key's annual day of service.

24,000

Employee Volunteer Hours
in 2016



Use the red key.

Our Key4Green program focuses on energy, efficiency, and renewable investments for commercial clients. Through specialized financing options, we help clients become more sustainable while boosting their bottom line.

For more information about Key's commitment to corporate responsibility, please access our Corporate Responsibility report at key.com/CRreport.

Corporate Governance

Key remains committed to meeting high standards of corporate governance, ethical behavior, and business conduct. Our strong principles are foundational to who we are, and we are proud of our best practices in director elections, board independence, standing board committees, policies and procedures, and shareholder engagement. We have a highly qualified and engaged Board of Directors with diverse backgrounds, broad skill sets, and business expertise

who continue to hold our management team accountable. We also have a robust Lead Director role that helps drive independent leadership and oversight of responsibilities.

During the year, we welcomed three new members to our Board of Directors, all of whom joined us from First Niagara. Austin Adams, Gary Crosby, and Carlton Highsmith bring industry expertise and new perspectives, including insight that has contributed to the successful integration of First Niagara. We also thank Joseph Carrabba for his eight years of service to Key's Board of Directors, as he will not be standing for re-election this year. His contributions, guidance, and leadership have left Key a stronger institution, and we wish him well.

For more information on our corporate governance practices, please see our 2017 proxy statement, which describes in greater detail the structure, practices, and policies of our company.

- X8** Consecutive *"Outstanding" CRA ratings* – Office of the Comptroller of the Currency
- X3** *America's 50 most community-minded companies* – Points of Light's "Civic 50"
- X7** *Top 50 Companies for Diversity* – DiversityInc
- X1** *Top 10 Companies for Opportunity* – DiversityInc
- X9** *Scored a perfect 100* – Human Rights Campaign's Corporate Equality Index
- X9** *Best Companies for LGBT Equality* – Human Rights Campaign
- X6** *Top 10 Companies for Supplier Diversity* – DiversityInc
- X3** *Top 12 Companies for Diversity Councils* – DiversityInc
- X3** *Military Friendly® Employer* – G.I. Jobs

Corporate Governance

KeyCorp Board of Directors



Beth E. Mooney
*Chairman and
Chief Executive Officer*
KeyCorp



Austin A. Adams
*Retired Executive
Vice President and
Corporate Chief
Information Officer*
JPMorgan Chase



Bruce D. Broussard
*President and
Chief Executive Officer*
Humana, Inc.



Joseph A. Carrabba*
Chief Executive Officer
Irtati Energy



Charles P. Cooley
*Retired Chief Financial
Officer*
The Lubrizol Corporation



Gary M. Crosby
*Former President and
Chief Executive Officer*
First Niagara
Financial Group, Inc.



Alexander M. Cutler
*Retired Chairman and
Chief Executive Officer*
Eaton



H. James Dallas
*Retired Senior
Vice President,
Quality and Operations*
Medtronic, Inc.



Elizabeth R. Gile
*Retired Managing
Director*
Deutsche Bank AG



Ruth Ann M. Gillis
*Retired Executive
Vice President and
Chief Administrative
Officer*
Exelon Corporation



William G. Gisel, Jr.
*President and
Chief Executive Officer*
Rich Products
Corporation



Carlton L. Highsmith
*Former President and
Chief Executive Officer*
The Specialized
Packaging Group



Richard J. Hipple
Executive Chairman
Materion Corporation



Kristen L. Manos
Partner
Sanderson Berry



Demos Parneros
Chief Operating Officer
Barnes & Noble, Inc.



Barbara R. Snyder
President
Case Western Reserve
University



David K. Wilson
Retired Examiner-in-Charge
Office of the Comptroller
of the Currency

KeyCorp Leadership Team

Beth E. Mooney
*Chairman and
Chief Executive Officer*

Amy G. Brady
Chief Information Officer

Craig A. Buffie
*Chief Human Resources
Officer*

E.J. Burke
Co-President
Key Community Bank

Dennis A. Devine
Co-President
Key Community Bank

Trina M. Evans
*Chief of Staff and
Director of Corporate
Center*

**Christopher
M. Gorman**
*Merger Integration
Executive*

Paul N. Harris
*Secretary and
General Counsel*

William L. Hartmann
Chief Risk Officer

Donald R. Kimble
Chief Financial Officer

Angela G. Mago
Co-Head
Key Corporate Bank

Andrew J. Paine III
Co-Head
Key Corporate Bank

Kevin T. Ryan
*Chief Risk Review Officer
and General Auditor*

*Not standing for re-election in 2017.

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, 2016

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
7.750% Non-Cumulative Perpetual Convertible Preferred Stock, Series A	New York Stock Exchange
Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series C	New York Stock Exchange
Depository Shares (each representing a 1/40 th interest in a share of Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series E)	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 \$9,311,866,979 (based on the June 30, 2016, closing price of KeyCorp common shares of \$11.05 as reported on the New York Stock Exchange). As of February 23, 2017, there were 1,072,438,764 common shares outstanding.

Certain specifically designated portions of KeyCorp's definitive Proxy Statement for its 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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;
- operational or risk management failures by us or critical third parties;
- 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;
- negative outcomes from claims or litigation;
- the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;
- evolving capital and liquidity standards under applicable regulatory rules;
- our ability to receive dividends from our subsidiary, KeyBank;
- unanticipated changes in our liquidity position, including but not limited to, changes in our access to or the cost of funding and our ability to secure alternative funding sources;
- 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;
- tax reform and other changes in tax laws;
- 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;
- our ability to adapt our products and services to industry standards and consumer preferences;
- unanticipated adverse effects of strategic partnerships or acquisitions and dispositions of assets or businesses;
- our ability to realize the anticipated benefits of the First Niagara 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.

KEYCORP
2016 FORM 10-K ANNUAL REPORT
TABLE OF CONTENTS

<u>Item Number</u>		<u>Page Number</u>
	PART I	
1	Business	4
1A	Risk Factors	18
1B	Unresolved Staff Comments	27
2	Properties	28
3	Legal Proceedings	28
4	Mine Safety Disclosures	28
	PART II	
5	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
6	Selected Financial Data	30
7	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
7A	Quantitative and Qualitative Disclosures About Market Risk	96
8	Financial Statements and Supplementary Data	97
	Management's Annual Report on Internal Control over Financial Reporting	98
	Reports of Independent Registered Public Accounting Firm	99
	Consolidated Financial Statements and Related Notes	101
	Consolidated Balance Sheets	101
	Consolidated Statements of Income	102
	Consolidated Statements of Comprehensive Income	103
	Consolidated Statements of Changes in Equity	104
	Consolidated Statements of Cash Flows	105
	Notes to Consolidated Financial Statements	106
9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	206
9A	Controls and Procedures	206
9B	Other Information	206
	PART III	
10	Directors, Executive Officers and Corporate Governance	206
11	Executive Compensation	207
12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	207
13	Certain Relationships and Related Transactions, and Director Independence	207
14	Principal Accountant Fees and Services	207
	PART IV	
15	Exhibits and Financial Statement Schedules	208
	(a) (1) Financial Statements — See listing in Item 8 above	
	(a) (2) Financial Statement Schedules — None required	
	(a) (3) Exhibits	
16	Form 10-K Summary	210
	Signatures	211
	Exhibits	

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 \$136.5 billion at December 31, 2016. 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, 2016, these services were provided across the country through KeyBank's 1,217 full-service retail banking branches and a network of 1,593 ATMs in 15 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 24 ("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 15,700 full-time equivalent employees for 2016.

In addition to the customary banking services of accepting deposits and making loans, our bank and its trust company subsidiary offer personal and institutional trust custody services, securities lending, personal financial and planning services, access to mutual funds, treasury services, personal property and casualty insurance, 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. Key Community Bank also purchases retail auto sales contracts via a network of auto dealerships. The auto dealerships finance the sale of automobiles as the initial lender and then assign the contracts to us pursuant to dealer agreements.

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, investment banking and capital markets products, 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.

We derive the majority of our revenues within the United States from customers domiciled in the United States. Revenue from foreign countries and external customers domiciled in foreign countries was immaterial to our consolidated financial statements.

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.

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 and investment, lending, credit card, and personalized wealth management products and business advisory services. Key Community Bank offers personal property and casualty insurance, such as home, auto, renters, watercraft, and umbrella. Key Community Bank also purchases retail auto sales contracts via a network of auto dealerships. These products and services are provided through our relationship managers and specialists working in our 15-state branch network, which is organized into ten internally defined geographic regions: Washington, Oregon/Alaska, Rocky Mountains, Indiana/Northwest Ohio/Michigan, Central/Southwest Ohio, East Ohio/Western Pennsylvania, Atlantic, Western New York, Eastern New York and New England. In addition, some of these product capabilities are delivered by Key Corporate Bank to clients of Key Community Bank.

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in seven industry sectors: consumer, energy, healthcare, industrial, public sector, real estate, and technology. Key Corporate Bank delivers a broad suite of banking and capital markets products to its clients, including syndicated finance, debt and equity capital markets, commercial payments, equipment finance, commercial mortgage banking, derivatives, foreign exchange, financial advisory, and public finance. Key Corporate Bank is also a significant servicer of commercial mortgage loans and a significant special servicer of 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 24 ("Line of Business Results").

Additional Information

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:

Description of Financial Data	Page(s)
Selected Financial Data	33
Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates from Continuing Operations	43
Components of Net Interest Income Changes from Continuing Operations	45
Composition of Loans	54
Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates	61
Securities Available for Sale	63
Held-to-Maturity Securities	64
Maturity Distribution of Time Deposits of \$100,000 or More	65
Allocation of the Allowance for Loan and Lease Losses	82
Summary of Loan and Lease Loss Experience from Continuing Operations	84
Summary of Nonperforming Assets and Past Due Loans from Continuing Operations	85
Summary of Changes in Nonperforming Loans from Continuing Operations	86
Short-Term Borrowings	190

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.

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.

Acquisitions and Divestitures

On August 1, 2016, First Niagara merged with and into KeyCorp, with KeyCorp as the surviving entity. On October 7, 2016, First Niagara Bank merged with and into KeyBank, with KeyBank as the surviving entity. Systems and client conversion also occurred during the fourth quarter of 2016 in connection with the bank merger. For more information on the First Niagara acquisition and other acquisitions and divestitures by Key, see Note 2 ("Business Combination") and Note 14 ("Acquisition, Divestiture, 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. Mergers and acquisitions have also led to increased concentration in the banking industry, placing added competitive pressure on Key's core banking products and services as we see competitors enter some of our markets or offer similar products. 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.

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, 2016, 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 (50) - 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.

Edward J. Burke (60) - 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 of KeyBank and head of KeyBank Real Estate Capital and Key Community Development Lending.

Dennis A. Devine (45) - 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 of KeyBank 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 (52) - 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.

Christopher M. Gorman (56) - In 2016, Mr. Gorman became Merger Integration Executive responsible for leading the integration efforts related to KeyCorp's merger with First Niagara Financial Group, Inc. Previously, Mr. Gorman was the President of Key Corporate Bank from 2010 to 2016. 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 Inc. (2003 to 2010). He became an executive officer of KeyCorp in 2010.

Paul N. Harris (58) - Mr. Harris has been the General Counsel and Secretary of KeyCorp since 2003 and an executive officer of KeyCorp since 2004.

William L. Hartmann (63) - 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 (56) - 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.

Angela G. Mago (51) - Ms. Mago became Co-Head of Key Corporate Bank in 2016. She also serves as Head of Real Estate Capital for Key, a role she has held since 2014. From 2011 to 2014, Ms. Mago was Head of Key's Commercial Mortgage Group. She became an executive officer of KeyCorp in 2016.

Beth E. Mooney (61) - 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.

Andrew J. Paine III (47) - Mr. Paine became Co-Head of Key Corporate Bank in 2016. He also serves as President of KeyBanc Capital Markets Inc., a role he has held since 2013. From 2010 to 2013, Mr. Paine was the Co-Head of KeyBanc Capital Markets Inc. He became an executive officer of KeyCorp in 2016.

Kevin T. Ryan (55) - Mr. Ryan has been the Chief Risk Review Officer and General Auditor of KeyCorp since 2007. He became an executive officer of KeyCorp in 2016.

Douglas M. Schosser (46) - 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.

Kathleen Terrell (49) - Ms. Terrell became the Chief Human Resources Officer of KeyCorp in 2016. Previously, Ms. Terrell served as the Director of Compensation and Benefits (2013 to 2015), Director of Talent Acquisition (2013), Director of Sound Compensation Practices (2012 to 2013), and the Chief Financial Officer of Key Community Bank (2007 to 2012). She became an executive officer of KeyCorp in 2016.

On January 12, 2017, Craig A. Buffie replaced Kathleen Terrell as KeyCorp's Chief Human Resources Officer, at which point Ms. Terrell resumed responsibility for compensation and benefits, employee relations, human resources compliance, and human resources integration functions at Key and was no longer an executive officer of KeyCorp.

Craig A. Buffie (56) - Mr. Buffie served as KeyCorp's Chief Human Resources Officer from February 2013 until March 2016, when he stepped out of the Chief Human Resources Officer position to focus on the integration efforts related to the First Niagara merger. He resumed his role as Chief Human Resources Officer and an executive officer of KeyCorp in January 2017. 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.

Supervision and Regulation

The regulatory framework applicable to BHCs and banks is intended primarily to protect consumers, the DIF, 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 any such changes may materially affect our business, financial condition, results of operations, or access to liquidity or credit.

Overview

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: (i) the OCC for national banks and federal savings associations; (ii) the FDIC for state non-member banks and savings associations; (iii) the Federal Reserve for state member banks; (iv) the CFPB for consumer financial products or services; (v) the SEC and FINRA for securities broker/dealer activities; (vi) the SEC, CFTC, and NFA for swaps and other derivatives; and (vii) 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.

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. However, a BHC that satisfies certain requirements regarding management, capital adequacy, and Community Reinvestment Act performance may elect to be treated as a Financial Holding Company (“FHC”) for purposes of federal law, and as a result may engage in a substantially broader scope of activities that are considered to be financial in nature or complementary to those activities. KeyCorp has elected to be treated as a FHC and, as such, is authorized to engage in securities underwriting and dealing, insurance agency and underwriting, and merchant banking activities. In addition, the Federal Reserve has permitted FHCs, like KeyCorp, to engage in the following activities, under the view that they are complementary to a financial activity: physical commodities trading activities, energy management services, and energy tolling, among others.

Under federal law, a BHC also must serve as a source of financial strength to its subsidiary depository institution(s) by providing financial assistance in the event of financial distress. This support may be required when the BHC does 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.

The Dodd-Frank Act created the FSOC to overlay the U.S. supervisory framework for BHCs, insured depository institutions, and other financial service providers, by serving as a systemic risk oversight body. Specifically, the FSOC is authorized 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.

As an FHC, KeyCorp is subject to regulation, supervision, and examination by the Federal Reserve under the BHCA. Our national bank subsidiaries and their subsidiaries are subject to regulation, supervision and examination by the OCC. At December 31, 2016, 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.

Regulatory capital requirements

Background

KeyCorp and KeyBank are subject to regulatory capital requirements that are based largely on the work of an international group of supervisors known as the Basel Committee on Banking Supervision (“Basel Committee”). The Basel Committee is responsible for establishing international bank supervisory standards for implementation in member jurisdictions, to enhance and align bank regulation on a global scale and promote financial stability.

The regulatory capital framework developed by the Basel Committee and implemented in the United States is a predominately risk-based capital framework that establishes minimum capital requirements based on the amount of regulatory capital a banking organization maintains relative to the amount of its total assets, adjusted to reflect credit risk (“risk-weighted assets”). Each banking organization subject to this regulatory capital framework is required to satisfy certain minimum risk-based capital measures (e.g., a tier 1 risk-based capital ratio requirement of tier 1 capital to total risk-weighted assets), and in the United States, a minimum leverage ratio requirement of tier 1 capital to average total on-balance sheet assets, which serves as a backstop to the risk-based measures.

A capital instrument is assigned to one of two tiers based on the relative strength and ability of that instrument to absorb credit losses on a going concern basis. Capital instruments with relatively robust loss-absorption capacity are assigned to tier 1, while other capital instruments with relatively less loss-absorption capacity are assigned to tier 2. A banking organization’s total capital equals the sum of its tier 1 and tier 2 capital.

The Basel Committee also developed a market risk capital framework to address the substantial exposure to market risk faced by banking organizations with significant trading activity and augment the credit risk-based capital requirements described above. For example, the minimum total risk-based capital ratio requirement for a banking organization subject to the market risk capital rule equals the ratio of the banking organization’s total capital to the sum of its credit risk-weighted assets and market risk-weighted assets. Only KeyCorp is subject to the market risk capital rule, as KeyBank does not engage in substantial trading activity.

Basel III

To address deficiencies in the international regulatory capital standards identified during the 2007-2009 global financial crisis, in 2010 the Basel Committee released comprehensive revisions to the international regulatory capital framework, commonly referred to as “Basel III.” The Basel III revisions are designed to strengthen the quality and quantity of regulatory capital, in part through the introduction of a tier 1 common equity capital requirement; provide more comprehensive and robust risk coverage, particularly for securitization exposures, equities, and off-balance sheet positions; and address pro-cyclicality concerns through the implementation of capital buffers. The Basel Committee also released a series of revisions to the market risk capital framework to address deficiencies identified during its initial implementation (e.g., arbitrage opportunities between the credit risk-based and market risk capital rules) and in connection with the global financial crisis.

In July 2013, the U.S. banking agencies adopted a final rule to implement Basel III with an effective date of January 1, 2015 and a multi-year transition period ending on December 31, 2018 (“Regulatory Capital Rules”). Consistent with the international framework, the Regulatory Capital Rules further restrict the type of instruments that may be recognized in tier 1 and tier 2 capital (including the phase out of trust preferred securities from tier 1 capital for BHCs above a certain asset threshold, like KeyCorp); establish a minimum tier 1 common equity capital ratio requirement of 4.5% and capital buffers to absorb losses during periods of financial stress; and refine several of the methodologies used for determining risk-weighted assets. The Regulatory Capital Rules provide additional requirements for large banking organizations with over \$250 billion in total consolidated assets or \$10 billion in foreign exposure, but those additional requirements do not apply to KeyCorp or KeyBank. Accordingly, for purposes of the Regulatory Capital Rules, KeyCorp and KeyBank are treated as “standardized approach banking organizations.”

Under the Regulatory Capital Rules, standardized approach banking organizations, like KeyCorp and KeyBank, are required to meet the minimum capital and leverage ratios set forth in the following table. At December 31, 2016, Key had an estimated Common Equity Tier 1 Capital Ratio of 9.43% under the fully phased-in Regulatory Capital Rules. Also at December 31, 2016, 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)	December 31, 2016 Key Pro Forma	Minimum January 1, 2016	Phase-in Period	Minimum January 1, 2019
Common Equity Tier 1 ^(a)	9.43%	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
Tier 1 Capital	10.62	6.0	None	6.0
Tier 1 Capital + Capital conservation buffer		6.0	1/1/16 - 1/1/19	8.5
Total Capital	12.61	8.0	None	8.0
Total Capital + Capital conservation buffer		8.0	1/1/16 - 1/1/19	10.5
Leverage ^(c)	9.71	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.
- (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 with an effective date of 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, 2016, KeyBank (consolidated) satisfied the risk-based and leverage capital requirements necessary to be considered “well capitalized” for purposes of the revised prompt corrective action framework. However, investors should not regard this determination as a representation of the overall financial condition or prospects of KeyBank because the prompt corrective action framework is intended to serve a limited supervisory function. Moreover, it is important to note that the prompt corrective action framework does not apply to BHCs, like KeyCorp.

Liquidity requirements

KeyCorp is subject to regulatory liquidity requirements based on international liquidity standards established by the Basel Committee in 2010, and subsequently revised between 2013 and 2014 (as revised, the “Basel III liquidity framework”). The Basel III liquidity framework establishes quantitative standards designed to ensure that a banking organization is appropriately positioned, from a balance sheet perspective, to satisfy its short- and long-term funding needs.

To address short-term liquidity risk, the Basel III liquidity framework established a liquidity coverage ratio (“Basel III LCR”), calculated as the ratio of a banking organization’s high-quality liquid assets to its total net cash outflows over 30 consecutive calendar days. In addition, to address long-term liquidity risk, the Basel III liquidity framework established a net stable funding ratio (“Basel III NSFR”), calculated as the ratio of the amount of stable funding available to a banking organization to its required amount of stable funding. Banking organizations must satisfy minimum Basel III LCR and NSFR requirements of at least 100%.

In October 2014, the federal banking agencies published a final rule to implement Basel III LCR for U.S. banking organizations (the “Liquidity Coverage Rules”). Consistent with the Basel III LCR, the U.S. Liquidity Coverage Rules establish 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.

Under the Liquidity Coverage Rules, KeyCorp must calculate a Modified LCR on a monthly basis, and is required to satisfy a minimum Modified LCR requirement of 100% by January 1, 2017. At December 31, 2016, Key’s estimated Modified LCR was above 100%. In the future, KeyCorp 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.

In December 2016, the Federal Reserve adopted a final rule to implement public disclosure requirements for the LCR and Modified LCR. Under the final rule, each calendar quarter KeyCorp must publicly disclose certain quantitative information regarding its Modified LCR calculation, together with a discussion of the factors that have a significant effect on its Modified LCR. That discussion may include the main drivers of the Modified LCR; changes in the Modified LCR over time and the cause(s) of such changes; the composition of eligible high-quality liquid assets; concentration of funding sources; derivative exposures and potential capital calls; any currency mismatch; and the centralized liquidity management function of the organization and its interaction with other functional areas. KeyCorp must comply with these disclosure requirements for the calendar quarter beginning April 1, 2018 and subsequent quarters.

The federal banking agencies commenced implementation of the Basel III NSFR in the United States in April and May 2016, with the release of a proposed rule to implement a minimum net stable funding ratio (“NSFR”) requirement for certain internationally active banking organizations (excluding KeyCorp) and a modified version of the minimum NSFR requirement (“Modified NSFR”) for BHCs and other depository institution holding companies with over \$50 billion in consolidated assets that are not internationally active (including KeyCorp), together with quarterly public disclosure requirements. The proposed rule would require banking organizations to satisfy a minimum NSFR requirement of 1.0 on an ongoing basis. However, banking organizations subject to the Modified NSFR (like KeyCorp) would be required to maintain a lower minimum amount of available stable funding, equal to 70% of the required stable funding under the NSFR. The proposed rule would be effective on January 1, 2018. The comment period for the NPR expired on August 5, 2016. If the proposed NSFR requirement is adopted as a final rule, then similar to actions taken in connection with the implementation of the Liquidity Coverage Rules, KeyCorp may adjust its balance sheet or modify product offerings to enhance its liquidity position.

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 (described below). The supervisory review includes an assessment of many factors, including KeyCorp’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, as set forth in a Federal Reserve guidance document issued on December 18, 2015 (“SR Letter 15-19”). Under SR Letter 15-19, the Federal Reserve identifies its core capital planning expectations regarding

governance; risk management; internal controls; capital policy; capital positions; incorporating stressful conditions and events; and estimating impact on capital positions for large and noncomplex firms building upon the capital planning requirements under its capital plan and stress test rules. SR Letter 15-19 also provides detailed supervisory expectations on such a firm's capital planning processes.

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

As part of the annual CCAR, the Federal Reserve conducts an annual supervisory stress test on KeyCorp, pursuant to which 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. KeyCorp filed its 2016 CCAR capital plan on April 5, 2016. The 2016 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 on June 23, 2016. On June 29, 2016, the Federal Reserve announced that it did not object to our 2016 capital plan.

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 June 23, 2016. KeyCorp published the results of its company-run mid-cycle stress test on November 2, 2016. Summaries of the results of these company-run stress tests are disclosed each year under the "Regulatory Disclosures and Filings" tab of Key's Investor Relations website: <http://www.key.com/ir>.

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

The final rule provides relief from the compliance requirements associated with the Federal Reserve's capital plan and stress test rules. Specifically, the final rule relieves covered BHCs from the qualitative assessment portion of the Federal Reserve's CCAR program and modifies the reporting requirements for these organizations by reducing the reporting requirements applicable to covered BHCs under the FR Y-14A and raising the materiality thresholds for specific portfolio reporting requirements. Going forward, the Federal Reserve will review the capital plans of covered BHCs in a manner similar to existing supervisory programs, which typically include the distribution of a first day letter in advance of the start date of the review, standard communication during the exam, lead time to meet requests for additional information, and sufficient time frames to address the findings of the review.

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

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

The final rule is effective 30 days after publication in the Federal Register, and therefore, the relief provided under the final rule from the qualitative assessment portion of the CCAR program is effective for the 2017 CCAR cycle.

Dividend restrictions

Federal law and regulation 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 less than "adequately capitalized" under the prompt corrective action framework or if the institution is in default in the payment of an assessment due to the FDIC. Similarly, under the Regulatory Capital Rules, a banking organization that fails to satisfy the minimum capital conservation buffer requirement will be subject to certain limitations, which include restrictions on capital distributions. For more information about the payment of dividends by KeyBank to KeyCorp, please see Note 4 ("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.

As required under the Dodd-Frank Act, in March 2015, the FDIC approved a final rule to impose a surcharge on the quarterly deposit insurance assessments of insured depository institutions having total consolidated assets of at least \$10 billion (like KeyBank). The surcharge is 4.5 cents per \$100 of the institution's assessment base (after making certain adjustments). The final rule became effective on July 1, 2016. As of July 1, 2016, KeyBank must pay a surcharge to assist in bringing the reserve ratio to the statutory minimum of 1.35%. Surcharges will continue through the quarter that the DIF reserve ratio reaches or exceeds 1.35%, but not later than December 31, 2018. If the reserve ratio does not reach 1.35% by December 31, 2018 (provided it is at least 1.15%), the FDIC will impose a shortfall assessment on March 31, 2019, on insured depository institutions with total consolidated assets of \$10 billion or more (like KeyBank).

In December 2016, the FDIC issued a final rule that imposes recordkeeping requirements on insured depository institutions with two million or more deposit accounts (including KeyBank), to facilitate rapid payment of insured deposits to customers if such an institution were to fail. The rule requires those insured depository institutions to: (i) maintain complete and accurate data on each depositor's ownership interest by right and capacity for all of the institution's deposit accounts; and (ii) develop the capability to calculate the insured and uninsured amounts for each deposit owner within 24 hours of failure. The FDIC will conduct periodic testing of compliance with these requirements, and institutions subject to the rule must submit to the FDIC a certification of compliance, signed by the KeyBank CEO, and deposit insurance coverage summary report on or before the mandatory compliance date and annually thereafter. The final rule is effective on April 1, 2017, with a mandatory compliance date of April 1, 2020.

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 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 and recovery 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. KeyCorp and KeyBank were not required to submit resolution plans for 2016 because the FDIC and Federal Reserve deferred such requirement (for 38 firms including KeyCorp and KeyBank) until December 2017. 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/bankinforeg/resolution-plans.htm> and <https://www.fdic.gov/regulations/reform/resplans/>.

On September 28, 2016, the OCC released final guidelines that establish standards for recovery planning by certain large OCC-regulated institutions, including KeyBank. The guidelines require such institutions to establish a comprehensive framework for evaluating the financial effects of severe stress events, and recovery actions an institution may pursue to remain a viable, going concern during a period of severe financial stress. Under the final guidelines, an institution's recovery plan must include triggers to alert the institution of severe stress events, escalation procedures, recovery options, and a process for periodic review and approval by senior management and the board of directors. The recovery plan should be tailored to the complexity, scope of operations, and risk profile of the institution. Assuming that KeyBank has average total consolidated assets of greater than \$100 billion but less than \$750 billion as of January 1, 2017, it must be in compliance with the guidelines not later than January 1, 2018.

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.

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, which 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 financial instruments, including 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. A banking entity may also engage in risk-mitigating hedging activity if it 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, the Federal Reserve has exercised its unilateral authority to extend the compliance deadline until July 21, 2017, with respect to covered funds. In addition, on December 12, 2016, the Federal Reserve released additional guidelines regarding how banking entities may seek an extension of the conformance period for certain legacy covered fund investments. Under the Dodd-Frank Act, the Federal Reserve is authorized to provide a banking entity up to an additional five years to conform legacy investments (i.e., contractual commitments of a banking organization on or before May 1, 2010, to make an investment) in "illiquid" covered funds.

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. On January 13, 2017, Key filed for an additional extension for illiquid funds, to retain certain indirect

investments until the earlier of the date on which the investment is conformed or is expected to mature or July 21, 2022. The application for an extension was approved on February 14, 2017.

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.

The resolution plan requirements applicable to KeyCorp were implemented by a joint final rule adopted by the Federal Reserve and FDIC in 2011. That same year, the Federal Reserve issued a proposal to implement the stress test, early remediation, and SCCL requirements. However, when that proposal was adopted as a final rule in 2012, it included only the stress test requirements and not the SCCL or early remediation requirements.

In March 2014, the Federal Reserve published a final rule to implement certain of the enhanced prudential standards required under the Dodd-Frank Act, including: (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.

In March 2016, the Federal Reserve issued an NPR proposing to establish a minimum SCCL for BHCs with total consolidated assets of \$50 billion or more, like KeyCorp. This proposal would implement a provision in the Dodd-Frank Act and replaces proposals on this subject issued by the Federal Reserve in 2011 and 2012. Under the proposal, a covered BHC (including KeyCorp) would not be allowed to have an aggregate net credit exposure to any unaffiliated counterparty that exceeds 25% of the consolidated capital stock and surplus of the covered BHC. Global systemically-important banks and certain other large BHCs (excluding KeyCorp) would be subject to stricter limits under the proposal. A covered BHC such as KeyCorp would be required to comply with the proposed limits and quarterly reporting to show such compliance starting two years after the effective date of a final rule. The comment period for the NPR expired on June 3, 2016. KeyCorp does not expect to be materially impacted by this proposal if it is adopted as a final rule. The Federal Reserve has taken no further action on the early remediation requirements proposed in 2011.

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.

ERISA fiduciary standard

In April 2016, the Department of Labor published final rules and amendments to certain prohibited transaction exemptions regarding which service providers would be regarded as fiduciaries under ERISA for making investment advice recommendations to: (i) certain retirement plan fiduciaries, participants or beneficiaries, and (ii) owners or beneficiaries of individual retirement accounts and health savings accounts, among other retirement plans. The purpose of these rules is to place fiduciary obligations, rather than the lesser legal obligations that currently apply, on these service providers. Accordingly, the rules subject any financial institution making recommendations for either the purchase or sale of investments in or rollover of the respective retirement plan to certain fiduciary obligations under ERISA, such as an impartial conduct standard and not selling certain investment products whose compensation may raise a conflict of interest for the advisor without entering into a contract providing certain disclosures and legal remedies to the customer. The requirement of impartial conduct is effective April 10, 2017, and the contract provisions must be in place by January 1, 2018.

ITEM 1A. RISK FACTORS

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 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. Given the Dodd-Frank legislative mandate to centrally clear eligible derivative contracts, we rely on central clearing counterparties to remain open and operationally viable at all times. The possibility of a large member failure or a cybersecurity breach could result in a disruption in this market.

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 current trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, the softening 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 outpace the estimate in our current methodology used to establish our 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.

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, which caused the credit markets to constrain and also caused a widespread liquidation of assets. 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 new 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, 2016, approximately 72% 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 could 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.

KeyBank has faced 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, including its provisions 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 well as other significant regulations which have been enacted with upcoming effective dates. As a result, some uncertainty remains as to the aggregate impact upon Key of the Dodd-Frank Act and other significant regulations.

Changes to existing statutes, regulations or regulatory policies or their interpretation or implementation 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.

As a financial institution, we are subject to extensive federal and state regulation and supervision. As a result of the merger with First Niagara, we acquired certain lines of business that offer additional consumer products, including auto finance and insurance products. In addition, the First Niagara acquisition allowed us to expand our residential mortgage business. With our increased size and expanded lines of business, we are subject to additional heightened requirements and expectations. The amount of regulation and supervision to which we are subject and our cost of compliance have increased with the additional consumer products that we now offer. We, like other companies who provide similar consumer products, face the risk of class actions and other litigation and claims arising out of these products.

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. 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, internal controls, 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,

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 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 high quality liquid assets than has historically been the case.

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 requirements” under the heading “Supervision and Regulation” in Item 1 of this report.

The Federal Reserve’s 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 required us to increase our holdings of higher-quality liquid assets, may require us to change our future mix of investment alternatives, and may impact future business relationships with certain customers. Additionally, support of 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 BHCs 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 BHCs 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 requirements” 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 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 a reduced level 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. On July 13, 2016, Moody's subsequently confirmed Key's ratings and changed the outlook from negative to stable, concluding their review. A rating downgrade of the securities of KeyCorp or KeyBank could 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. The prolonged low-interest rate environment, despite a generally improving economy, has presented a challenge for the industry, including Key, and affects business and financial 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:

- 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;
- A decrease in consumer and business confidence levels generally, decreasing credit usage and investment or increasing delinquencies and defaults;
- A decrease in household or corporate incomes, reducing demand for Key's products and services;
- 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;
- A decrease in our ability to liquidate positions at acceptable market prices;

- The extended continuation of the current low-interest rate environment, continuing or increasing downward pressure to our net interest income;
- An increase in competition or consolidation in the financial services industry;
- Increased concern over and scrutiny of the capital and liquidity levels of financial institutions generally, and those of our transaction counterparties specifically;
- A decrease in confidence in the creditworthiness of the United States or other governments whose securities we hold; and
- 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 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 in which we conduct significant business.

We have concentrations of loans and other business activities in geographic regions where our bank branches are located — Washington; Oregon/Alaska; Rocky Mountains; Indiana/Northwest Ohio/Michigan; Central/Southwest Ohio; East Ohio/Western Pennsylvania; Atlantic; Western New York; Eastern New York; and New England — and additional exposure to geographic regions outside of our branch footprint. The moderate U.S. economic recovery in the various regions where we operate has been uneven, 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 and healthcare 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.

Tax reform may impact our tax liabilities, the tax liabilities of our clients, and how we do business.

Following the U.S. general election, a number of new tax reform ideas have been proposed. Tax reform and other changes in tax laws may cause an increase or decrease in our overall income tax liabilities. Changes in tax laws generally will impact our clients in different ways and magnitudes and could also impact how we deliver products to our clients and satisfy our community reinvestment obligations.

Current tax reform proposals include reducing the statutory federal income tax rate, which generally would reduce our tax expense as well as the tax expense of our clients. However, such a reduction would, in general, negatively impact the economic value of tax-exempt investments, including corporate-owned life insurance and municipal securities, and also impact certain tax leasing transactions. Other potential changes such as the loss of certain tax deductions and credits could have an adverse impact on our overall income tax obligation and on our clients, which could change how we conduct our business operations in the future.

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 is 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; embracing the changes required by our clients and the marketplace; and acquiring and expanding targeted client relationships. 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. We expect the competitive landscape of the financial services industry to become even more intense 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 keeping our assets safe and sound; our ability to attract, retain, and develop a highly competent employee workforce; and industry and general economic trends. Increased competition in the financial services industry, or 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 our regulators, who may identify deficiencies in the structure of or issue additional guidance on our compensation practices, causing us to make changes that may affect our ability to offer competitive compensation to these individuals or that place us at a disadvantage to non-financial service competitors. Our ability to attract and retain talented employees may be affected by these developments, or any new executive compensation limits and regulations.

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

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 acquired company; diversion of our management’s time and attention; significant integration risk with respect to employees, accounting systems, and technology platforms;

increased regulatory scrutiny; and, the possible loss of key employees and customers of the acquired 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 that we consummated on August 1, 2016, 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 could occur in connection with any future transaction.

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

KeyCorp consummated its merger with First Niagara on August 1, 2016. The success of the merger, including anticipated benefits and cost savings, will depend on, among 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 continue to incur transaction and integration costs in connection with the First Niagara merger.

We incurred and expect to continue to incur significant, nonrecurring costs in connection with consummating the First Niagara merger. In addition, we will continue to incur integration costs 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.

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 incurred 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.

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, 2016, Key leased approximately 477,577 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 563,519 square feet at December 31, 2016. Our office space is used by all of our segments. As of the same date, KeyBank owned 523 branches and leased 694 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

	Washington	Oregon/ Alaska	Rocky Mountains	Indiana/ Northwest Ohio/ Michigan	Central/ Southwest Ohio	East Ohio/ Western Pennsylvania	Atlantic	Western New York	Eastern New York	New England	Total
Branches	149	93	121	113	74	176	118	107	135	131	1,217
ATMs	185	99	153	131	87	290	146	174	172	156	1,593

ITEM 3. LEGAL PROCEEDINGS

The information presented in the Legal Proceedings section of Note 21 (“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.

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”	66
Presentation of annual and quarterly market price and cash dividends per common share and discussion of dividends in the section captioned “Capital — Dividends”	33, 65, 89
Discussion of dividend restrictions in the sections captioned “Supervision and Regulation — Regulatory capital requirements — Dividend restrictions” and “Liquidity risk management — Liquidity for KeyCorp,” Note 4 (“Restrictions on Cash, Dividends and Lending Activities”), and Note 23 (“Shareholders’ Equity”)	14, 79, 125, 198
KeyCorp common share price performance (2012-2016) graph	66

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.

In April 2016, we submitted to the Federal Reserve and provided to the OCC our 2016 capital plan under the annual CCAR process. On June 29, 2016, the Federal Reserve announced that it did not object to our 2016 capital plan. Share repurchases of up to \$350 million were included in the 2016 capital plan, which is effective through the second quarter of 2017. As previously reported, we resumed our share repurchase program under the 2016 capital plan following the close of the First Niagara acquisition. During 2016, we completed \$133 million of common share repurchases including repurchases to offset issuances of common shares under our employee compensation plans.

The following table summarizes our repurchases of our common shares for the three months ended December 31, 2016.

Calendar 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 may yet be purchased as part of publicly announced plans or programs ^(b)
October 1 — 31	343,265	\$ 14.05	317,000	27,984,422
November 1 — 30	3,330,941	15.02	3,294,750	19,936,539
December 1 — 31	705,997	18.20	658,825	18,185,781
Total	4,380,203	\$ 15.46	4,270,575	

(a) Includes common shares repurchased in the open market and common shares deemed surrendered by employees in connection with our stock compensation and benefit plans to satisfy tax obligations.

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp common shares as follows: on October 31, 2016, at \$14.12; on November 30, 2016, at \$17.31; and on December 31, 2016, at \$18.27.

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 33 is incorporated herein by reference.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	<u>Page Number</u>
<u>Introduction</u>	32
Terminology	32
Selected financial data	33
Economic overview	34
Long-term financial targets	34
Corporate strategy	35
Strategic developments	35
<u>Highlights of Our 2016 Performance</u>	36
Financial performance	36
<u>Results of Operations</u>	41
Net interest income	41
Noninterest income	45
Noninterest expense	47
Income taxes	49
<u>Line of Business Results</u>	49
Key Community Bank summary of operations	50
Key Corporate Bank summary of operations	52
Other Segments	53
<u>Financial Condition</u>	54
Loans and loans held for sale	54
Securities	62
Other investments	64
Deposits and other sources of funds	65
Capital	65
<u>Off-Balance Sheet Arrangements and Aggregate Contractual Obligations</u>	68
Off-balance sheet arrangements	68
Contractual obligations	69
Guarantees	70
<u>Risk Management</u>	70
Overview	70
Market risk management	71
Liquidity risk management	76
Credit risk management	79
Operational and compliance risk management	86
<u>Fourth Quarter Results</u>	87
Earnings	87
Net interest income	87
Noninterest income	87
Noninterest expense	88
Provision for loan and lease losses	88
Income taxes	88
<u>Critical Accounting Policies and Estimates</u>	92
Allowance for loan and lease losses	92
Valuation methodologies	93
Derivatives and hedging	94
Contingent liabilities, guarantees and income taxes	94
<u>European Sovereign and Non-Sovereign Debt Exposure</u>	95

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 106.

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 requirements — Capital planning and stress testing” 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 — 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”).

Figure 1. Selected Financial Data

						Compound Annual Rate of Change (2012-2016)
<i>dollars in millions, except per share amounts</i>	2016	2015	2014	2013	2012	
YEAR ENDED DECEMBER 31,						
Interest income	\$ 3,319	\$ 2,622	\$ 2,554	\$ 2,620	\$ 2,705	4.2 %
Interest expense	400	274	261	295	441	(1.9)
Net interest income	2,919	2,348	2,293	2,325	2,264	5.2
Provision for credit losses	266	166	57	138	213	4.5
Noninterest income	2,071	1,880	1,797	1,766	1,856	2.2
Noninterest expense	3,756	2,840	2,761	2,812	2,834	5.8
Income (loss) from continuing operations before income taxes	968	1,222	1,272	1,141	1,073	(2.0)
Income (loss) from continuing operations attributable to Key	790	915	939	870	835	(1.1)
Income (loss) from discontinued operations, net of taxes ^(a)	1	1	(39)	40	23	(46.6)
Net income (loss) attributable to Key	791	916	900	910	858	(1.6)
Income (loss) from continuing operations attributable to Key common shareholders	753	892	917	847	813	(1.5)
Income (loss) from discontinued operations, net of taxes ^(a)	1	1	(39)	40	23	(46.6)
Net income (loss) attributable to Key common shareholders	754	893	878	887	836	(2.0)
PER COMMON SHARE						
Income (loss) from continuing operations attributable to Key common shareholders	\$.81	\$ 1.06	\$ 1.05	\$.93	\$.87	(1.4)%
Income (loss) from discontinued operations, net of taxes ^(a)	—	—	(.04)	.04	.02	N/M
Net income (loss) attributable to Key common shareholders ^(b)	.81	1.06	1.01	.98	.89	(1.9)
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	\$.80	\$ 1.05	\$ 1.04	\$.93	\$.86	(1.4)
Income (loss) from discontinued operations, net of taxes — assuming dilution ^(a)	—	—	(.04)	.04	.02	N/M
Net income (loss) attributable to Key common shareholders — assuming dilution ^(b)	.80	1.05	.99	.97	.89	(2.1)
Cash dividends paid	.33	.29	.25	.215	.18	12.9
Book value at year end	12.58	12.51	11.91	11.25	10.78	3.1
Tangible book value at year end	9.99	11.22	10.65	10.11	9.67	.7
Market price at year end	18.27	13.19	13.90	13.42	8.42	16.8
Dividend payout ratio	40.7%	27.4%	24.8%	21.9%	20.2%	N/A
Weighted-average common shares outstanding (000)	927,816	834,846	871,464	906,524	938,941	(.2)
Weighted-average common shares and potential common shares outstanding (000) ^(c)	938,536	844,489	878,199	912,571	943,259	(.1)
AT DECEMBER 31,						
Loans	\$ 86,038	\$ 59,876	\$ 57,381	\$ 54,457	\$ 52,822	10.2 %
Earning assets	121,966	83,780	82,269	79,467	75,055	10.2
Total assets	136,453	95,131	93,820	92,934	89,236	8.9
Deposits	104,087	71,046	71,998	69,262	65,993	9.5
Long-term debt	12,384	10,184	7,874	7,650	6,847	12.6
Key common shareholders' equity	13,575	10,456	10,239	10,012	9,980	6.3
Key shareholders' equity	15,240	10,746	10,530	10,303	10,271	8.2
PERFORMANCE RATIOS — FROM CONTINUING OPERATIONS						
Return on average total assets	.70%	.99%	1.08%	1.03%	1.03%	N/A
Return on average common equity	6.26	8.63	9.01	8.48	8.25	N/A
Return on average tangible common equity ^(d)	7.39	9.64	10.04	9.45	9.16	N/A
Net interest margin (TE)	2.92	2.88	2.97	3.12	3.21	N/A
Cash efficiency ratio ^(d)	73.7	65.9	66.2	67.3	67.8	N/A
PERFORMANCE RATIOS — FROM CONSOLIDATED OPERATIONS						
Return on average total assets	.69%	.97%	.99%	1.02%	.99%	N/A
Return on average common equity	6.27	8.64	8.63	8.88	8.48	N/A
Return on average tangible common equity ^(d)	7.40	9.65	9.61	9.90	9.42	N/A
Net interest margin (TE)	2.91	2.85	2.94	3.02	3.13	N/A
Loan to deposit ^(e)	85.2	87.8	84.6	83.8	85.8	N/A
CAPITAL RATIOS AT DECEMBER 31,						
Key shareholders' equity to assets	11.17%	11.30%	11.22%	11.09%	11.51%	N/A
Key common shareholders' equity to assets	9.95	10.99	10.91	10.78	11.18	N/A
Tangible common equity to tangible assets ^(d)	8.09	9.98	9.88	9.80	10.15	N/A
Common Equity Tier 1 ^(d)	9.54	10.94	N/A	N/A	N/A	N/A
Tier 1 common equity ^(d)	N/A	N/A	11.17	11.22	11.36	N/A
Tier 1 risk-based capital	10.89	11.35	11.90	11.96	12.15	N/A
Total risk-based capital	12.85	12.97	13.89	14.33	15.13	N/A
Leverage	9.90	10.72	11.26	11.11	11.41	N/A
TRUST ASSETS						
Assets under management	\$ 36,592	\$ 33,983	\$ 39,157	\$ 36,905	\$ 34,744	1.0 %
OTHER DATA						
Average full-time-equivalent employees	15,700	13,483	13,853	14,783	15,589	.1 %
Branches	1,217	966	994	1,028	1,088	2.3

- (a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 14 ("Acquisition, Divestiture, 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 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 U.S. economy continued its modest recovery in 2016, with preliminary overall real GDP growth of 1.6%. This was slower than the growth in 2015 of 2.6%, due to a weaker start to the year, with tepid growth of .8% in the first quarter and 1.4% in the second quarter before accelerating in the third and fourth quarters. Slower growth in emerging markets, weak investment spending, and sluggish demand for American exports caused by a strong U.S. dollar, all factored in to muted economic expansion this year.

Globally, the economic recovery also slowed. The European Central Bank extended their quantitative easing program for another year in an effort to combat deflation, while emerging markets struggled in the face of low commodity prices and a cooling Chinese economy.

Oil prices saw a material increase of 46.0% over the year as supply levels normalized (after plummeting to multiyear lows in 2014 and 2015). While this led to slightly higher fuel prices, it also gave much-needed support to America's struggling energy industry. The stock market also performed admirably in 2016, with the S&P 500 equity index up 9.5%, compared to a .7% decrease in 2015. Much of the rally occurred late in the year, following the election, and based on expectations for growth-friendly economic policies from the U.S. presidential administration.

For 2016, 2.2 million new jobs were added in the U.S. The unemployment rate fell from 5.0% on December 31, 2015, to 4.7% on December 31, 2016. While weak labor force participation was a factor, solid job gains also drove the decline. Slack appears to be leaving the labor market as reflected in rising wage growth, up 2.9% in December 2016, over last year. Consumers preferred to spend rather than save in 2016 as personal consumption was up 3.8%, while the savings rate fell from 6.1% to 5.4% over this same time frame. Headline inflation moved upward by 2.1% in 2016, surpassing the Fed's target of 2.0%, after falling short in 2015 at .7%. Core inflation was also healthy throughout the year, ending 2016 at 2.2%, compared to 2.1% at the end of 2015.

As a result of the solid economy and strengthening labor market, the housing market generally benefited in 2016. New home sales growth outpaced existing home sales, with sales of new single-family houses totaling 562,000 in 2016, up 12.2% compared to 2015. Price appreciation slowed somewhat but remained positive, with the median price for existing homes up 3.8% year-over-year in December 2016, compared to 7.5% in December 2015. Housing starts also posted respectable gains, up 5.7% from December 2015, supported by multi-family construction of 9.1% while single-family construction lagged slightly at 3.9%. However, a declining home ownership rate continues to weigh on sales growth. Existing home sales finished 2016 at a seasonally adjusted annual rate of 5.49 million, roughly unchanged from December 2015.

After hinting at multiple rate hikes going into 2016, the Federal Open Market Committee ("FOMC") approved its first and only rate hike of the year at its December 14, 2016, meeting, raising interest rates by 25 basis points to the range of .50% - .75%. The FOMC cited an improving labor market and inflation levels, which have reached the Fed's 2.0% target, as the rationale behind their first rate hike since last December. The 10-year U.S. Treasury yield began the year at 2.2%, and dipped to as low as 1.4% over the summer, driven by temporarily disappointing labor market data. It then recovered to 2.5% in the final weeks of 2016 as capital rotated from treasuries into equities following the election and expectations for additional Fed rate hikes.

Long-term financial targets

Our long-term financial targets are as follows:

- Generate positive operating leverage and a cash efficiency ratio of less than 60%;
- Maintain a moderate risk profile by targeting a net loan charge-offs to average loans ratio in the range of .40% to .60%; and
- A return on tangible common equity ratio in the range of 13% to 15%.

Figure 2 shows the evaluation of our long-term financial targets for the three months and year ended December 31, 2016.

Figure 2. Evaluation of Our Long-Term Targets

	Key Metrics ^(a)	4Q16	Year Ended December 31, 2016	Targets
Positive operating leverage	Cash efficiency ratio ^(b)	76.2%	73.7%	< 60 %
	Cash efficiency ratio excluding merger-related charges ^(b)	63.3%	64.3%	
Moderate risk profile	Net loan charge-offs to average loans	.34%	.29%	.40 - .60 %
Financial Returns	Return on average tangible common equity ^(c)	7.88%	7.39%	13.00 - 15.00 %
	Return on average tangible common equity excluding merger related charges ^(c)	12.47%	10.32%	

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

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

(c) 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 2016-2017 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.

- **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.
- **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 2016 to support our corporate strategy:

- We continue to focus on growing our businesses and remain committed to improving productivity and efficiency. Excluding merger-related charges, we generated positive operating leverage, with pre-provision net revenue up 22.5% from 2015. See Figure 4 entitled “GAAP to Non-GAAP Reconciliations,” which presents the computations of certain financial measures excluding merger-related charges. Net interest income increased \$577 million from 2015, driven by the acquisition of First Niagara and growth in our core earning asset balances and yields. Noninterest income was driven by continued momentum in a number of our core fee-based businesses, reflecting investments we have made over the past few years, as well as the acquisition. Investment banking and debt placement fees reached a record level in 2016 driven by growth in financial advisory, equity capital markets, and mortgage banking fees. Although

noninterest expense increased from prior year, this increase primarily reflects the acquisition of First Niagara as well as higher incentive and stock-based compensation.

- Our strong risk management practices and a more favorable credit environment resulted in another year of solid credit quality trends. For 2016, net loan charge-offs were .29% of average loans.
- We completed our First Niagara acquisition on August 1, 2016, the largest in our company's history. The total consideration for the transaction was approximately \$4.0 billion. During the fourth quarter of 2016, we completed systems and client conversion, moving data and account information for one million new clients, converting over 300 branches, and consolidating over 100 First Niagara and Key branches.
- On September 9, 2016, KeyCorp sold to Northwest Bank, a wholly-owned subsidiary of Northwest Bancshares, Inc., 18 branches in the Buffalo, New York market. The branches were divested in connection with the merger between First Niagara and KeyCorp, and pursuant to an agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System following a customary antitrust review in connection with the merger. The divestiture included \$439 million of loans and \$1.6 billion of deposits associated with the 18 branches.
- Capital management remained a priority in 2016. On June 29, 2016, the Federal Reserve announced that it did not object to our 2016 capital plan submitted as part of the annual CCAR process. The 2016 capital plan included a common share repurchase program of up to \$350 million, which is effective through the second quarter of 2017. During the third and fourth quarters of 2016, we completed \$133 million of common share repurchases under the authorization.
- The Board declared a quarterly dividend of \$.075 per common share for the first quarter of 2016. Our 2015 capital plan proposed an increase in our quarterly common share dividend to \$.085 per share, which was approved by our Board in May 2016. Consistent with our 2016 capital plan, we made a dividend payment of \$.085 per common share for each of the second, third, and fourth quarters of 2016, which brought our annual dividend to \$.33 per common share for 2016. The Board will consider an additional potential increase in our quarterly common share dividend, up to \$.095 per share, in the second quarter of 2017, consistent with the 2016 capital plan.

Highlights of Our 2016 Performance

Financial performance

For 2016, we announced net income from continuing operations attributable to Key common shareholders of \$753 million, or \$.80 per common share. These results compare to net income from continuing operations attributable to Key common shareholders of \$892 million, or \$1.05 per common share, for 2015.

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>	2016	2015	2014
SUMMARY OF OPERATIONS			
Income (loss) from continuing operations attributable to Key	\$ 790	\$ 915	\$ 939
Income (loss) from discontinued operations, net of taxes ^(a)	1	1	(39)
Net income (loss) attributable to Key	\$ 791	\$ 916	\$ 900
Income (loss) from continuing operations attributable to Key	\$ 790	\$ 915	\$ 939
Less: Dividends on Preferred Stock	37	23	22
Income (loss) from continuing operations attributable to Key common shareholders	753	892	917
Income (loss) from discontinued operations, net of taxes ^(a)	1	1	(39)
Net income (loss) attributable to Key common shareholders	\$ 754	\$ 893	\$ 878
PER COMMON SHARE — ASSUMING DILUTION			
Income (loss) from continuing operations attributable to Key common shareholders	\$.80	\$ 1.05	\$ 1.04
Income (loss) from discontinued operations, net of taxes ^(a)	—	—	(.04)
Net income (loss) attributable to Key common shareholders ^(b)	\$.80	\$ 1.05	\$.99

(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 14 ("Acquisition, Divestiture, and Discontinued Operations").

(b) EPS may not foot due to rounding.

Our 2017 expectations, as discussed below, do not include the effect of merger-related charges.

Our 2016 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 2016 was \$2.953 billion, and the net interest margin was 2.92%. These results compare to taxable-equivalent net interest income of \$2.376 billion and a net interest margin of 2.88% for the prior year reflecting the benefit from the First Niagara acquisition and growth in our core earning asset balances and yields. In 2017, we expect net interest income to be in the range of \$3.6 billion to \$3.7 billion, with our outlook assuming one additional rate increase in the middle of 2017.

Our noninterest income was \$2.1 billion, up \$191 million, or 10.2%, from 2015. Growth was driven by continued momentum in a number of our core fee-based businesses, reflecting investments we have made over the past few years, including the acquisition of First Niagara in the third quarter of 2016. Investment banking and debt placement fees benefited from our business model and reached a record level, increasing \$37 million from 2015. Cards and payments income, along with corporate services income also had a record year, increasing 27.3% and 8.6%, respectively, from 2015. In 2017, we expect noninterest income to be in the range of \$2.3 billion to \$2.4 billion.

Our noninterest expense was \$3.8 billion, an increase of \$916 million, or 32.3%, from 2015. We recognized \$483 million of merger- and pension-related charges in 2016 compared to \$61 million of merger-, efficiency-, and pension-related charges in 2015. Excluding these charges, noninterest expense increased \$494 million, or 17.8%, from 2015. Personnel expense increased \$421 million, driven primarily by the acquisition of First Niagara. In addition, there was higher incentive and stock-based compensation, due to higher funding of both cash based plans and performance based stock awards. Nonpersonnel expense increased \$495 million, primarily due to the acquisition of First Niagara. In 2017, we expect noninterest expense to be in the range of \$3.65 billion to \$3.75 billion.

Average loans totaled \$71.1 billion for 2016, compared to \$58.6 billion in 2015. This increase reflected the impact of the First Niagara acquisition and growth in commercial, financial and agricultural loans. For 2017, we anticipate average loan growth in the mid-single-digit (4% to 6%) range with 2016 adjusted to account for a full year impact of First Niagara.

Average deposits, excluding deposits in foreign office, totaled \$86.4 billion for 2016, an increase of \$16.2 billion compared to 2015, primarily reflecting the acquisition of First Niagara and higher interest-bearing deposits resulting from core deposit growth in our retail banking franchise and growth in escrow deposits from the commercial mortgage servicing business. Our consolidated loan to deposit ratio was 85.2% at December 31, 2016, compared to 87.8% at December 31, 2015. For 2017, we anticipate average deposit growth in the mid-single-digit (4% to 6%) range with 2016 adjusted to account for a full year impact of First Niagara.

We maintained credit discipline in 2016, and our asset quality ratios remained strong. The provision for credit losses was \$266 million for 2016 compared to \$166 million for 2015. Over the past 12 months, net loan charge-offs increased \$63 million. This increase is attributable to the growth in our loan portfolio and higher charge-offs in our commercial, financial and agricultural loan portfolio over the same period. Net loan charge-offs were \$205 million, or .29%, of average loan balances for 2016, compared to \$142 million, or .24%, for 2015. Our nonperforming loans increased to \$625 million, or .73%, of period-end loans at December 31, 2016, compared to \$387 million, or .65%, at December 31, 2015. Our ALLL was \$858 million, or 1.00% of period-end loans, compared to \$796 million, or 1.33%, at December 31, 2015, and represented 137% and 206% coverage of nonperforming loans at December 31, 2016, and December 31, 2015, respectively. In 2017, we expect net loan charge-offs to average loans to remain below our long-term targeted range of 40 to 60 basis points and for the provision to slightly exceed net loan charge-offs to provide for loan growth.

Our capital ratios remain strong. Our tangible common equity and Tier 1 risk-based capital ratios were 8.09% and 10.89%, respectively, at December 31, 2016, compared to 9.98% and 11.35%, respectively, at December 31, 2015. In addition, our Common Equity Tier 1 was 9.54% and 10.94%, respectively, at December 31, 2016, and 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.

Capital management remains a clear priority for us. During 2016, our full-year dividend per common share increased 14% from the prior year, and we repurchased \$133 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,” certain financial measures excluding merger-related charges, and “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 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 are only 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.

As disclosed in Note 2 (“Business Combination”) and Note 14 (“Acquisition, Divestiture, and Discontinued Operations”), KeyCorp completed its purchase of First Niagara on August 1, 2016. The definitive agreement and plan of merger to acquire First Niagara was originally announced on October 30, 2015. As a result of this transaction, we have recognized merger-related charges. Figure 4 shows the computation of pre-provision net revenue excluding merger-related charges, noninterest expense excluding merger-related charges, EPS excluding merger-related charges, and return on average assets from continuing operations excluding merger-related charges. We believe that eliminating the effects of the merger-related charges makes it easier to analyze our results by presenting them on a more comparable basis with our prior results.

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 also disclose the cash efficiency ratio excluding merger-related charges. We believe these ratios provide greater consistency and comparability between our results and those of our peer banks. Additionally, these ratios are 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.

Figure 4. GAAP to Non-GAAP Reconciliations

Year ended December 31,

dollars in millions

	2016	2015	2014	2013	2012
Tangible common equity to tangible assets at period end					
Key shareholders' equity (GAAP)	\$ 15,240	\$ 10,746	\$ 10,530	\$ 10,303	\$ 10,271
Less: Intangible assets ^(a)	2,788	1,080	1,090	1,014	1,027
Preferred Stock ^(b)	1,640	281	282	282	291
Tangible common equity (non-GAAP)	\$ 10,812	\$ 9,385	\$ 9,158	\$ 9,007	\$ 8,953
Total assets (GAAP)	\$ 136,453	\$ 95,131	\$ 93,820	\$ 92,934	\$ 89,236
Less: Intangible assets ^(a)	2,788	1,080	1,090	1,014	1,027
Tangible assets (non-GAAP)	\$ 133,665	\$ 94,051	\$ 92,730	\$ 91,920	\$ 88,209
Tangible common equity to tangible assets ratio (non-GAAP)	8.09%	9.98%	9.88%	9.80%	10.15%
Common Equity Tier 1 at period end					
Key shareholders' equity (GAAP)	\$ 15,240	\$ 10,746	—	—	—
Less: Preferred Stock ^(b)	1,640	281	—	—	—
Common Equity Tier 1 capital before adjustments and deductions	13,600	10,465	—	—	—
Less: Goodwill, net of deferred taxes	2,405	1,034	—	—	—
Intangible assets, net of deferred taxes	155	26	—	—	—
Deferred tax assets	4	1	—	—	—
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(185)	(58)	—	—	—
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(52)	(20)	—	—	—
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	(339)	(365)	—	—	—
Total Common Equity Tier 1 capital	\$ 11,612	\$ 9,847	—	—	—
Net risk-weighted assets (regulatory)	\$ 121,671	\$ 89,980	—	—	—
Common Equity Tier 1 ratio (non-GAAP)	9.54%	10.94%	—	—	—
Tier 1 common equity at period end					
Key shareholders' equity (GAAP)	—	—	\$ 10,530	\$ 10,303	\$ 10,271
Qualifying capital securities	—	—	339	339	339
Less: Goodwill	—	—	1,057	979	979
Accumulated other comprehensive income (loss) ^(c)	—	—	(395)	(394)	(172)
Other assets ^(d)	—	—	83	89	114
Total Tier 1 capital (regulatory)	—	—	10,124	9,968	9,689
Less: Qualifying capital securities	—	—	339	339	339
Preferred Stock ^(b)	—	—	282	282	291
Total Tier 1 common equity (non-GAAP)	—	—	\$ 9,503	\$ 9,347	\$ 9,059
Net risk-weighted assets (regulatory)	—	—	\$ 85,100	\$ 83,328	\$ 79,734
Tier 1 common equity ratio (non-GAAP)	—	—	11.17%	11.22%	11.36%
Pre-provision net revenue					
Net interest income (GAAP)	\$ 2,919	\$ 2,348	\$ 2,293	\$ 2,325	\$ 2,264
Plus: Taxable-equivalent adjustment	34	28	24	23	24
Noninterest income (GAAP)	2,071	1,880	1,797	1,766	1,856
Less: Noninterest expense (GAAP)	3,756	2,840	2,761	2,812	2,834
Pre-provision net revenue from continuing operations (non-GAAP)	\$ 1,268	\$ 1,416	\$ 1,353	\$ 1,302	\$ 1,310
Plus: Merger-related charges	474	6	—	—	—
Pre-provision net revenue from continuing operations excluding merger-related charges (non-GAAP)	\$ 1,742	\$ 1,422	\$ 1,353	\$ 1,302	\$ 1,310
Noninterest expense excluding merger-related charges					
Noninterest expense (GAAP)	\$ 3,756	\$ 2,840	\$ 2,761	\$ 2,812	\$ 2,834
Less: Merger-related charges	465	6	—	—	—
Noninterest expense excluding merger-related charges (non-GAAP)	\$ 3,291	\$ 2,834	\$ 2,761	\$ 2,812	\$ 2,834
Average tangible common equity					
Average Key shareholders' equity (GAAP)	\$ 12,647	\$ 10,626	\$ 10,467	\$ 10,276	\$ 10,144
Less: Intangible assets (average) ^(e)	1,825	1,085	1,039	1,021	978
Preferred Stock (average)	627	290	291	291	291
Average tangible common equity (non-GAAP)	\$ 10,195	\$ 9,251	\$ 9,137	\$ 8,964	\$ 8,875
Return on average tangible common equity from continuing operations					
Income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$ 753	\$ 892	\$ 917	\$ 847	\$ 813
Average tangible common equity (non-GAAP)	10,195	9,251	9,137	8,964	8,875
Return on average tangible common equity from continuing operations (non-GAAP)	7.39%	9.64%	10.04%	9.45%	9.16%
Return on average tangible common equity consolidated					
Net income (loss) attributable to Key common shareholders (GAAP)	\$ 754	\$ 893	\$ 878	\$ 887	\$ 836
Average tangible common equity (non-GAAP)	10,195	9,251	9,137	8,964	8,875
Return on average tangible common equity consolidated (non-GAAP)	7.40%	9.65%	9.61%	9.90%	9.42%

Figure 4. GAAP to Non-GAAP Reconciliations (Continued)

Year ended December 31,

dollars in millions

	2016	2015	2014	2013	2012
Return on average tangible common equity from continuing operations excluding merger-related charges					
Income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$ 753	\$ 892	\$ 917	\$ 847	\$ 813
Merger-related charges, after tax	299	4	—	—	—
Income (loss) from continuing operations attributable to Key common shareholders excluding merger-related charges (non-GAAP)	\$ 1,052	\$ 896	\$ 917	\$ 847	\$ 813
Average tangible common equity (non-GAAP)	\$ 10,195	\$ 9,251	\$ 9,137	\$ 8,964	\$ 8,875
Return on average tangible common equity from continuing operations excluding merger-related charges (non-GAAP)	10.32%	9.69%	10.04%	9.45%	9.16%
Return on average tangible common equity consolidated excluding merger-related charges					
Net income (loss) attributable to Key common shareholders (GAAP)	\$ 754	\$ 893	\$ 878	\$ 887	\$ 836
Merger-related charges, after tax	299	4	—	—	—
Net income (loss) attributable to Key common shareholders excluding merger-related charges (non-GAAP)	\$ 1,053	\$ 897	\$ 878	\$ 887	\$ 836
Average tangible common equity (non-GAAP)	\$ 10,195	\$ 9,251	\$ 9,137	\$ 8,964	\$ 8,875
Return on average tangible common equity consolidated excluding merger-related charges (non-GAAP)	10.33%	9.70%	9.61%	9.90%	9.42%
EPS excluding merger-related charges					
EPS from continuing operations attributable to Key common shareholders — assuming dilution (GAAP)	\$.80	\$ 1.05	\$ 1.04	\$.93	\$.86
Add: EPS impact of merger-related charges	.33	—	—	—	—
EPS from continuing operations attributable to Key common shareholders excluding merger-related charges (non-GAAP)	\$ 1.13	\$ 1.05	\$ 1.04	\$.93	\$.86
Cash efficiency ratio					
Noninterest expense (GAAP)	\$ 3,756	\$ 2,840	\$ 2,761	\$ 2,812	\$ 2,834
Less: Intangible asset amortization (GAAP)	55	36	39	44	23
Adjusted noninterest expense (non-GAAP)	3,701	2,804	2,722	2,768	2,811
Less: Merger-related charges	465	6	—	—	—
Adjusted noninterest expense excluding merger-related charges (non-GAAP)	\$ 3,236	\$ 2,798	\$ 2,722	\$ 2,768	\$ 2,811
Net interest income (GAAP)	\$ 2,919	\$ 2,348	\$ 2,293	\$ 2,325	\$ 2,264
Plus: Taxable-equivalent adjustment	34	28	24	23	24
Noninterest income (GAAP)	2,071	1,880	1,797	1,766	1,856
Total taxable-equivalent revenue (non-GAAP)	\$ 5,024	\$ 4,256	\$ 4,114	\$ 4,114	\$ 4,144
Add: Merger-related charges	9	—	—	—	—
Adjusted total taxable equivalent revenue excluding merger-related charges (non-GAAP)	\$ 5,033	\$ 4,256	\$ 4,114	\$ 4,114	\$ 4,144
Cash efficiency ratio (non-GAAP)	73.7%	65.9%	66.2%	67.3%	67.8%
Cash efficiency ratio excluding merger-related charges (non-GAAP)	64.3%	65.9%	66.2%	67.3%	67.8%
Return on average total assets from continuing operations excluding merger-related charges					
Income from continuing operations attributable to Key (GAAP)	\$ 790	\$ 915	\$ 939	\$ 870	\$ 835
Add: Merger-related charges, after tax	299	4	—	—	—
Income from continuing operations attributable to Key excluding merger-related charges, after tax (non-GAAP)	\$ 1,089	\$ 919	\$ 939	\$ 870	\$ 835
Average total assets from continuing operations (GAAP)	\$ 112,537	\$ 94,117	\$ 87,077	\$ 84,177	\$ 80,842
Return on average total assets from continuing operations excluding merger-related charges (non-GAAP)	.97%	.98%	1.08%	1.03%	1.03%

- (a) For the years ended December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, intangible assets exclude \$42 million, \$45 million, \$68 million, \$92 million, and \$123 million, respectively, of period-end purchased credit card relationships.
- (b) Net of capital surplus for the years ended December 31, 2016, 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, and December 31, 2012.
- (e) For the years ended December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, average intangible assets exclude \$43 million, \$55 million, \$79 million, \$107 million, and \$55 million, respectively, of average purchased credit card relationships.

Figure 4. GAAP to Non-GAAP Reconciliations (Continued)

Year ended December 31,

dollars in millions

2016

Common Equity Tier 1 under the Regulatory Capital Rules (estimates)	
Common Equity Tier 1 under current Regulatory Capital Rules	\$ 11,612
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Deferred tax assets and other intangible assets ^(f)	(106)
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules ^(g)	\$ 11,506
Net risk-weighted assets under current Regulatory Capital Rules	\$ 121,671
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Mortgage servicing assets ^(h)	576
Volcker Funds	(185)
All other assets ⁽ⁱ⁾	(14)
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules ^(g)	\$ 122,048
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules ^(g)	9.43%

- (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 Regulatory Capital Rules.
- (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 Regulatory Capital Rules, 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., 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.

Net interest income and the net interest margin for 2016 reflect contributions from the acquisition of First Niagara on August 1, 2016, \$111 million of related purchase accounting accretion, and \$6 million of one-time merger-related charges.

Taxable-equivalent net interest income for 2016 was \$2.953 billion, and the net interest margin was 2.92%, compared to taxable-equivalent net interest income of \$2.376 billion and a net interest margin of 2.88% for the prior year, reflecting the benefit from the First Niagara acquisition and growth in our core earning asset balances and yields.

Taxable-equivalent net interest income for 2015 increased \$59 million compared to 2014, and the net interest margin declined 9 basis points. 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.

Average earning assets totaled \$101.3 billion for 2016, compared to \$82.5 billion in 2015, reflecting the impact of the First Niagara acquisition, growth in commercial, financial and agricultural loans, and higher levels of liquidity driven by deposit growth and long-term debt issuances.

The acquisition of First Niagara contributed approximately \$23 billion of period-end loans and \$9 billion in investment securities. As part of the acquisition, we divested \$439 million of loans and exited approximately \$330 million of acquired non-relationship commercial loans. In addition, we completed the planned sales and repositioning of First Niagara's investment portfolio to more closely align with our portfolio and investment philosophy.

The acquisition resulted in an estimated adjustment to the fair value of the acquired loan portfolio of \$548 million. We anticipate finalizing the valuation of the acquired loans during the first quarter of 2017. Depending on when the valuation is finalized within the first quarter, we may not be able to adjust the value of the acquired loans, if deemed necessary, until the second quarter of 2017.

Average deposits, excluding deposits in foreign office, totaled \$86.4 billion for 2016, an increase of \$16.2 billion compared to 2015, primarily reflecting the acquisition of First Niagara and higher interest-bearing deposits resulting from core deposit growth in our retail banking franchise and growth in escrow deposits from the commercial mortgage servicing business.

The acquisition of First Niagara contributed approximately \$27.3 billion of period-end deposits at September 30, 2016. This amount excludes \$1.6 billion of deposits that were divested in the third quarter of 2016. The acquired deposits are spread across deposit products and consist primarily of consumer deposits.

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

Year ended December 31,	2016			2015		
	Average Balance	Interest ^(a)	Yield/Rate ^(b)	Average Balance	Interest ^(a)	Yield/Rate ^(a)
<i>dollars in millions</i>						
ASSETS						
Loans ^{(b), (c)}						
Commercial, financial and agricultural ^(d)	\$ 35,276	\$ 1,215	3.45%	\$ 29,658	\$ 953	3.21%
Real estate — commercial mortgage	11,063	451	4.07	8,020	295	3.68
Real estate — construction	1,460	76	5.22	1,143	43	3.73
Commercial lease financing	4,261	161	3.78	3,976	143	3.60
Total commercial loans	52,060	1,903	3.66	42,797	1,434	3.35
Real estate — residential mortgage	3,632	148	4.09	2,244	95	4.21
Home equity loans	11,286	456	4.04	10,503	418	3.98
Consumer direct loans	1,661	113	6.79	1,580	103	6.54
Credit cards	916	98	10.73	752	81	10.76
Consumer indirect loans	1,593	89	5.58	718	46	6.43
Total consumer loans	19,088	904	4.74	15,797	743	4.70
Total loans	71,148	2,807	3.95	58,594	2,177	3.71
Loans held for sale	979	34	3.51	959	37	3.85
Securities available for sale ^{(b), (c)}	16,661	329	1.98	13,720	293	2.14
Held-to-maturity securities ^(b)	6,275	122	1.94	4,936	96	1.95
Trading account assets	884	23	2.59	761	21	2.80
Short-term investments	4,656	22	.47	2,843	8	.27
Other investments ^(c)	679	16	2.37	706	18	2.63
Total earning assets	101,282	3,353	3.31	82,519	2,650	3.21
Allowance for loan and lease losses	(835)			(791)		
Accrued income and other assets	12,090			10,298		
Discontinued assets	1,707			2,132		
Total assets	<u>\$ 114,244</u>			<u>\$ 94,158</u>		
LIABILITIES						
NOW and money market deposit accounts	\$ 46,079	87	.19	\$ 36,258	56	.15
Savings deposits	3,957	3	.07	2,372	—	.02
Certificates of deposit (\$100,000 or more) ^(f)	3,911	48	1.22	2,041	26	1.28
Other time deposits	4,088	33	.81	3,115	22	.71
Deposits in foreign office	—	—	—	489	1	.23
Total interest-bearing deposits	58,035	171	.30	44,275	105	.24
Federal funds purchased and securities sold under repurchase agreements	487	1	.10	632	—	.04
Bank notes and other short-term borrowings	852	10	1.18	572	9	1.52
Long-term debt ^{(f), (g)}	9,802	218	2.29	7,332	160	2.24
Total interest-bearing liabilities	69,176	400	.58	52,811	274	.52
Noninterest-bearing deposits	28,317			26,355		
Accrued expense and other liabilities	2,393			2,222		
Discontinued liabilities ^(g)	1,706			2,132		
Total liabilities	101,592			83,520		
EQUITY						
Key shareholders' equity	12,647			10,626		
Noncontrolling interests	5			12		
Total equity	12,652			10,638		
Total liabilities and equity	<u>\$ 114,244</u>			<u>\$ 94,158</u>		
Interest rate spread (TE)			2.73%			2.69%
Net interest income (TE) and net interest margin (TE)		2,953	<u>2.92%</u>		2,376	<u>2.88%</u>
Less: TE adjustment ^(b)		34			28	
Net interest income, GAAP basis		\$ 2,919			\$ 2,348	

- (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 \$99 million, \$88 million, \$93 million, \$95 million, and \$36 million of assets from commercial credit cards for the years ended December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.

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

2014			2013			2012			Compound Annual Rate of Change (2012-2016)	
Average Balance	Interest ^(a)	Yield/Rate ^(a)	Average Balance	Interest ^(a)	Yield/Rate ^(a)	Average Balance	Interest ^(a)	Yield/Rate ^(a)	Average Balance	Interest
\$ 26,375	\$ 866	3.28%	\$ 23,723	\$ 855	3.60%	\$ 21,141	\$ 810	3.83%	10.8%	8.4%
7,999	303	3.79	7,591	312	4.11	7,656	339	4.43	7.6	5.9
1,061	43	4.07	1,058	45	4.25	1,171	56	4.74	4.5	6.3
4,239	156	3.67	4,683	172	3.67	5,142	187	3.64	(3.7)	(2.9)
39,674	1,368	3.45	37,055	1,384	3.73	35,110	1,392	3.96	8.2	6.5
2,201	96	4.37	2,185	98	4.49	2,049	100	4.86	12.1	8.2
10,639	428	4.02	10,463	426	4.07	9,993	421	4.21	2.5	1.6
1,501	104	6.92	1,404	103	7.33	1,269	121	9.53	5.5	(1.4)
712	78	10.95	701	83	11.86	288	40	13.99	26.0	19.6
952	60	6.31	1,246	80	6.38	1,653	105	6.38	(.7)	(3.3)
16,005	766	4.79	15,999	790	4.94	15,252	787	5.16	4.6	2.8
55,679	2,134	3.83	53,054	2,174	4.10	50,362	2,179	4.33	7.2	5.2
570	21	3.76	532	20	3.72	579	20	3.45	11.1	11.2
12,210	277	2.27	12,689	311	2.49	13,422	399	3.08	4.4	(3.8)
4,949	93	1.88	4,387	82	1.87	3,511	69	1.97	12.3	12.1
932	25	2.70	756	21	2.78	718	18	2.48	4.2	5.0
2,886	6	.21	2,948	6	.20	2,116	6	.27	17.1	29.7
865	22	2.53	1,028	29	2.84	1,141	38	3.27	(9.9)	(15.9)
78,091	2,578	3.30	75,394	2,643	3.51	71,849	2,729	3.82	7.1	4.2
(818)			(879)			(919)			(1.9)	
9,804			9,662			9,912			4.1	
3,828			5,036			5,573			(21.1)	
<u>\$ 90,905</u>			<u>\$ 89,213</u>			<u>\$ 86,415</u>			5.7%	
\$ 34,283	48	.14	\$ 32,846	53	.16	\$ 29,673	56	.19	9.2%	9.2
2,446	1	.02	2,505	1	.04	2,218	1	.05	12.3	24.6
2,616	35	1.35	2,829	50	1.76	3,574	94	2.64	1.8	(12.6)
3,495	32	.91	4,084	53	1.30	5,386	104	1.92	(5.4)	(20.5)
615	1	.23	567	1	.23	767	2	.23	N/M	N/M
43,455	117	.27	42,831	158	.37	41,618	257	.62	6.9	(7.8)
1,182	2	.16	1,802	2	.13	1,814	4	.19	(23.1)	(24.2)
597	9	1.49	394	8	1.89	413	7	1.69	15.6	7.4
5,159	133	2.68	4,184	127	3.28	4,673	173	4.10	16.0	4.7
50,393	261	.52	49,211	295	.60	48,518	441	.92	7.4	(1.9)
24,410			23,046			20,217			7.0	
1,791			1,656			1,958			4.1	
3,828			4,995			5,555			(21.0)	
80,422			78,908			76,248			5.9	
10,467			10,276			10,144			4.5	
16			29			23			(26.3)	
10,483			10,305			10,167			4.5	
<u>\$ 90,905</u>			<u>\$ 89,213</u>			<u>\$ 86,415</u>			5.7%	
	2,317	2.78%		2,348	2.91%		2,288	2.90%		
	24	2.97%		23	3.12%		24	3.21%		
<u>\$ 2,293</u>			<u>\$ 2,325</u>			<u>\$ 2,264</u>				5.2%

- (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.

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>	2016 vs. 2015			2015 vs. 2014		
	Average Volume	Yield/ Rate	Net Change ^(a)	Average Volume	Yield/ Rate	Net Change ^(a)
INTEREST INCOME						
Loans	\$ 488	\$ 142	\$ 630	\$ 110	\$ (67)	\$ 43
Loans held for sale	1	(4)	(3)	15	1	16
Securities available for sale	59	(23)	36	33	(17)	16
Held-to-maturity securities	26	—	26	—	3	3
Trading account assets	3	(1)	2	(5)	1	(4)
Short-term investments	7	7	14	—	2	2
Other investments	(1)	(1)	(2)	(4)	—	(4)
Total interest income (TE)	583	120	703	149	(77)	72
INTEREST EXPENSE						
NOW and money market deposit accounts	17	14	31	3	5	8
Savings deposits	—	3	3	—	(1)	(1)
Certificates of deposit (\$100,000 or more)	23	(1)	22	(7)	(2)	(9)
Other time deposits	8	3	11	(3)	(7)	(10)
Deposits in foreign office	(1)	—	(1)	—	—	—
Total interest-bearing deposits	47	19	66	(7)	(5)	(12)
Federal funds purchased and securities sold under repurchase agreements	—	1	1	(1)	(1)	(2)
Bank notes and other short-term borrowings	3	(2)	1	—	—	—
Long-term debt	55	3	58	50	(23)	27
Total interest expense	105	21	126	42	(29)	13
Net interest income (TE)	\$ 478	\$ 99	\$ 577	\$ 107	\$ (48)	\$ 59

(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 2016 was \$2.1 billion, up \$191 million, or 10.2%, from 2015. Growth was driven by continued momentum in a number of our core fee-based businesses, reflecting investments we have made over the past few years, as well as the First Niagara acquisition. Investment banking and debt placement fees benefited from our business model and reached a record level, increasing \$37 million from 2015. Cards and payments income and corporate services income also had a record year, increasing 27.3% and 8.6%, respectively, from 2015.

In 2015, noninterest income increased \$83 million, or 4.6%, compared to 2014. Investment banking and debt placement fees increased \$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.

Figure 7. Noninterest Income

Year ended December 31, dollars in millions	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
Trust and investment services income	\$ 464	\$ 433	\$ 403	\$ 31	7.2%
Investment banking and debt placement fees	482	445	397	37	8.3
Service charges on deposit accounts	302	256	261	46	18.0
Operating lease income and other leasing gains	62	73	96	(11)	(15.1)
Corporate services income	215	198	178	17	8.6
Cards and payments income	233	183	166	50	27.3
Corporate-owned life insurance income	125	127	118	(2)	(1.6)
Consumer mortgage income	17	12	10	5	41.7
Mortgage servicing fees	57	48	46	9	18.8
Net gains (losses) from principal investing	20	51	78	(31)	(60.8)
Other income ^(a)	94	54	44	40	74.1
Total noninterest income	\$ 2,071	\$ 1,880	\$ 1,797	\$ 191	10.2%
Merger-related charges	(3)	—	—	(3)	N/M
Total noninterest income excluding merger-related charges and First Niagara impact	\$ 2,074	\$ 1,880	\$ 1,797	\$ 194	10.3%

(a) Included in this line item is our “Dealer trading and derivatives income (loss).” Additional detail is provided in Figure 9.

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. For 2016, trust and investment services income increased \$31 million, or 7.2%, from the prior year primarily due to the acquisition of First Niagara and higher insurance and brokerage commissions. 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.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. The assets under management that primarily generate these revenues are shown below in Figure 8. At December 31, 2016, our bank, trust, and registered investment advisory subsidiaries had assets under management of \$36.6 billion, compared to \$34 billion at December 31, 2015, and \$39.2 billion at December 31, 2014. As shown in Figure 8, the increase from 2015 to 2016 was primarily attributable to the acquisition of First Niagara. The decrease from 2014 to 2015 was primarily attributable to client attrition in the securities lending portfolio and market declines across all the portfolios.

Figure 8. Assets Under Management

Year ended December 31, dollars in millions	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
Assets under management by investment type:					
Equity	\$ 21,722	\$ 20,199	\$ 21,393	\$ 1,523	7.5%
Securities lending	1,148	1,215	4,835	(67)	(5.5)
Fixed income	10,386	9,705	10,023	681	7.0
Money market	3,336	2,864	2,906	472	16.5
Total	\$ 36,592	\$ 33,983	\$ 39,157	\$ 2,609	7.7%

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 2016, investment banking and debt placement fees increased \$37 million, or 8.3%, from the prior year. For 2015, investment banking and debt placement fees increased \$48 million, or 12.1%, from the prior year. These increases were primarily driven by increased gains on the sale of commercial mortgages and agency origination fees, partially offset by a decrease in syndication fees.

Service charges on deposit accounts

Service charges on deposit accounts increased \$46 million, or 18%, in 2016 compared to the prior year primarily due to the acquisition of First Niagara. Service charges on deposit accounts decreased \$5 million, or 1.9%, in 2015 compared to 2014 primarily due to lower overdraft charges resulting from changes in posting order.

Corporate services income

Corporate services income increased \$17 million, or 8.6%, in 2016 compared to 2015 driven by higher dealer trading and derivatives 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.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased \$50 million, or 27.3%, in 2016 compared to 2015 primarily due to the acquisition of First Niagara and higher merchant services, purchase card, and ATM debit card fees driven by increased volume. Cards and payments income increased \$17 million, or 10.2%, in 2015 compared to 2014 due to higher merchant services, purchase card, and ATM debit card fees driven by increased volume.

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 \$40 million, or 74.1%, in 2016 compared to 2015, reflecting the impact of the First Niagara acquisition and changes in various miscellaneous income categories. Other income increased \$10 million, or 22.7%, in 2015 compared to 2014 due to changes in various miscellaneous income categories.

Figure 9. Dealer Trading and Derivatives Income (Loss)

Year ended December 31, <i>dollars in millions</i>	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
Dealer trading and derivatives income (loss), proprietary ^{(a), (b)}	\$ (1)	\$ (9)	\$ (18)	8	N/M
Dealer trading and derivatives income (loss), nonproprietary ^(b)	29	20	7	9	45.0%
Total dealer trading and derivatives income (loss)	\$ 28	\$ 11	\$ (11)	17	154.5%

- (a) For the year ended December 31, 2016, income of \$6 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, 2015, income of \$5 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, 2014, income of \$4 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.

Noninterest expense

As shown in Figure 10, noninterest expense for 2016 was \$3.8 billion, an increase of \$916 million, or 32.3%, from 2015. We recognized \$483 million of merger- and pension-related charges in 2016 compared to \$61 million of merger-, efficiency-, and pension-related charges in 2015. Excluding these charges, noninterest expense increased \$494 million, or 17.8% from 2015. As shown in Figure 12, personnel expense increased \$421 million, driven primarily by the acquisition of First Niagara. In addition, there was higher incentive and stock-based compensation due to higher funding of both cash based incentive plans and performance based stock awards. Nonpersonnel expense increased \$495 million, primarily due to the acquisition of First Niagara.

Noninterest expense for 2015 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.

Figure 10. Noninterest Expense

Year ended December 31, dollars in millions	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
Personnel ^(a)	\$ 2,073	\$ 1,652	\$ 1,591	\$ 421	25.5%
Net occupancy	305	255	261	50	19.6
Computer processing	255	164	158	91	55.5
Business services and professional fees	235	159	156	76	47.8
Equipment	98	88	96	10	11.4
Operating lease expense	59	47	42	12	25.5
Marketing	101	57	49	44	77.2
FDIC assessment	61	32	30	29	90.6
Intangible asset amortization	55	36	39	19	52.8
OREO expense, net	9	6	5	3	50.0
Other expense	505	344	334	161	46.8
Total noninterest expense	\$ 3,756	\$ 2,840	\$ 2,761	\$ 916	32.3%
Merger-related charges ^(b)	465	6	—	459	N/M
Total noninterest expense excluding merger-related charges	\$ 3,291	\$ 2,834	\$ 2,761	\$ 457	16.1%
Average full-time equivalent employees ^(c)	15,700	13,483	13,853	2,217	16.4%

- (a) Additional detail provided in Figure 12 entitled “Personnel Expense.”
- (b) Additional detail provided in Figure 11 entitled “Merger-Related Charges.”
- (c) The number of average full-time equivalent employees has not been adjusted for discontinued operations.

Figure 11. Merger-Related Charges

Year ended December 31, dollars in millions	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
Net interest income	\$ (6)	—	—	\$ (6)	N/M
Operating lease income and other leasing gains	(2)	—	—	(2)	N/M
Other income	(1)	—	—	(1)	N/M
Noninterest income	(3)	—	—	(3)	N/M
Personnel ^(a)	228	—	—	228	N/M
Net occupancy	29	—	—	29	N/M
Business services and professional fees	66	\$ 5	—	61	N/M
Computer processing	53	—	—	53	N/M
Marketing	26	—	—	26	N/M
Other nonpersonnel expense	63	1	—	62	N/M
Noninterest expense	465	6	—	459	N/M
Total merger-related charges	\$ 474	\$ 6	—	\$ 468	N/M

- (a) Personnel expense includes severance, technology development related to systems conversion, and fully-dedicated personnel for merger and integration efforts.

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 12, personnel expense, the largest category of our noninterest expense, increased by \$421 million, or 25.5%, in 2016 compared to 2015. The increase was primarily attributable to the acquisition of First Niagara. In addition, there was higher incentive and stock-based compensation due to higher funding of both cash based incentive plans and performance based stock awards.

Personnel expense increased by \$61 million, or 3.8%, from 2014 to 2015. Increases in incentive and stock-based compensation of \$30 million, 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.

Figure 12. Personnel Expense

Year ended December 31, dollars in millions	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
Salaries and contract labor	\$ 1,191	\$ 958	\$ 947	\$ 233	24.3%
Incentive and stock-based compensation ^(a)	537	410	380	127	31.0
Employee benefits	297	266	240	31	11.7
Severance	48	18	24	30	166.7
Total personnel expense	\$ 2,073	\$ 1,652	\$ 1,591	\$ 421	25.5%
Merger-related charges	228	—	—	228	N/M
Total personnel expense excluding merger-related charges	\$ 1,845	\$ 1,652	\$ 1,591	\$ 193	11.7%

(a) Excludes directors' stock-based compensation of \$3 million in 2016, \$1 million in 2015, and \$2 million in 2014, reported as "other expense" in Figure 10.

Net occupancy

Net occupancy expense increased \$50 million, or 19.6%, in 2016 compared to 2015, primarily due to the acquisition of First Niagara. Net occupancy expense decreased \$6 million, or 2.3%, in 2015 compared to 2014, primarily due to lower charges related to vacating leased property and a decrease in rental expenses.

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 \$161 million, or 46.8%, in 2016 compared to 2015, reflecting the impact of the First Niagara acquisition, certain real estate investments, and other miscellaneous expenses. Other expense increased \$10 million, or 3.0%, in 2015 compared to 2014, due to fluctuations in several of other expense line items.

Income taxes

We recorded a tax provision from continuing operations of \$179 million for 2016, compared to \$303 million for 2015, and \$326 million for 2014. The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 18.5% for 2016, compared to 24.8% for 2015, and 25.6% for 2014.

Our federal tax (benefit) expense differs from the amount that would be calculated using the federal statutory tax rate, primarily from investments in tax-advantaged assets, such as corporate-owned life insurance, tax credits associated with investments in low-income housing projects and energy related projects, and periodic adjustments to our tax reserves. In 2016, our effective tax rate was reduced due to lower pretax income resulting from merger-related charges, increased energy tax credits associated with leasing activities and a reduction of valuation allowances related to capital loss carryforwards. In 2015, our effective tax rate was reduced by additional federal tax credit refunds and, in 2014 due to the early termination of certain leveraged leases that resulted in nontaxable gains.

Line of Business Results

This section summarizes the financial performance of our two major business segments (operating segments): Key Community Bank and Key Corporate Bank. Note 24 ("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 13 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 13. Major Business Segments — Taxable-Equivalent Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key

Year ended December 31, <i>dollars in millions</i>				<u>Change 2016 vs. 2015</u>	
	2016	2015	2014	Amount	Percent
REVENUE FROM CONTINUING OPERATIONS (TE)					
Key Community Bank	\$ 2,872	\$ 2,275	\$ 2,216	\$ 597	26.2 %
Key Corporate Bank	2,062	1,813	1,649	249	13.7
Other Segments	109	175	254	(66)	(37.7)
Total Segments	5,043	4,263	4,119	780	18.3
Reconciling Items	(19)	(7)	(5)	(12)	N/M
Total	\$ 5,024	\$ 4,256	\$ 4,114	\$ 768	18.0 %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY					
Key Community Bank	\$ 373	\$ 264	\$ 249	\$ 109	41.3 %
Key Corporate Bank	634	536	544	98	18.3
Other Segments	83	125	156	(42)	(33.6)
Total Segments	1,090	925	949	165	17.8
Reconciling Items ^(a)	(300)	(10)	(10)	(290)	N/M
Total	\$ 790	\$ 915	\$ 939	\$ (125)	(13.7)%

(a) Reconciling items consist primarily of the unallocated portion of merger-related charges and items not allocated to the business segments because they do not reflect their normal operations.

Key Community Bank summary of operations

As shown in Figure 14, Key Community Bank recorded net income attributable to Key of \$373 million for 2016, compared to \$264 million for 2015, and \$249 million for 2014. The increase in 2016 was primarily due to the acquisition of First Niagara as well as growth in Key's core businesses.

Taxable-equivalent net interest income increased \$460 million, or 30.9%, from 2015. Average loans and leases grew \$6.8 billion while average deposits increased \$12.7 billion compared to 2015. The positive contribution to net interest income is from loan and deposit growth related to the acquisition of First Niagara and the increased value of deposits.

Noninterest income increased \$137 million, or 17.4% from 2015. Service charges on deposit accounts income increased \$38 million, or 17.8%, cards and payments income increased \$35 million, or 20.8%, due to higher credit card, purchase card and ATM debit card income. Trust and investment services income increased \$24 million, or 8.1% driven by higher insurance and brokerage commissions. Corporate services income increased \$10 million, or 21%. Consumer mortgage income was up \$5 million, or 41.7%. Investment banking and debt placement fees are up \$3 million, or 35.4%. Other noninterest income and operating lease income increases contributed the remaining growth of \$22 million.

The provision for credit losses increased \$77 million, or 110%, from 2015, primarily related to the addition of the acquired credit card and consumer direct portfolios, which were acquired at a premium, increase in the ALLL for loans that were individually evaluated for impairment, and loan growth.

Noninterest expense increased \$346 million, or 19.4%, from 2015. Personnel expense increased \$119 million, primarily due to increases in salaries, incentive compensation, and employee benefits related to the addition of First Niagara employees. Nonpersonnel expense increased \$227 million due to higher intangible amortization expense and FDIC assessment expense.

In 2015, Key Community Bank's net income attributable to Key increased \$15 million from the prior year. Taxable-equivalent net interest income increased \$40 million from 2014. The positive contribution to 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 \$19 million from 2014. Cards and payments income increased \$16 million due to higher merchant services, purchase card and ATM debit card income. Trust and investment services income increased \$5 million driven by higher insurance and brokerage commissions. Investment banking and debt placement fees increased \$4 million driven by higher syndication fees, and consumer mortgage was up \$2 million. These increases in noninterest income were

partially offset by lower service charges on deposit accounts which were down \$5 million from 2014, primarily due to reduced maintenance and overdraft fees and a \$3 million decrease in other miscellaneous income. The provision for loan and lease losses increased \$11 million. Noninterest expense increased \$24 million from 2014. Personnel expense increased \$16 million, primarily due to increases in salaries, incentive compensation, and stock-based compensation. Nonpersonnel expense increased \$8 million, primarily due to increased marketing spend and other support costs.

Figure 14. Key Community Bank

Year ended December 31, <i>dollars in millions</i>	2016	2015	2014	Change 2016 vs. 2015		
				Amount	Percent	
SUMMARY OF OPERATIONS						
Net interest income (TE)	\$ 1,947	\$ 1,487	\$ 1,447	\$ 460	30.9%	
Noninterest income	925	788	769	137	17.4	
Total revenue (TE)	2,872	2,275	2,216	597	26.2	
Provision for credit losses	147	70	59	77	110.0	
Noninterest expense	2,131	1,785	1,761	346	19.4	
Income (loss) before income taxes (TE)	594	420	396	174	41.4	
Allocated income taxes (benefit) and TE adjustments	221	156	147	65	41.7	
Net income (loss) attributable to Key	\$ 373	\$ 264	\$ 249	\$ 109	41.3%	
AVERAGE BALANCES						
Loans and leases	\$ 37,613	\$ 30,834	\$ 30,105	\$ 6,779	22.0%	
Total assets	40,284	32,948	32,241	7,336	22.3	
Deposits	63,895	51,163	50,316	12,732	24.9	
Assets under management at year end	\$ 36,592	\$ 33,983	\$ 39,157	\$ 2,609	7.7%	

ADDITIONAL KEY COMMUNITY BANK DATA

Year ended December 31, <i>dollars in millions</i>	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
NONINTEREST INCOME					
Trust and investment services income	\$ 320	\$ 296	\$ 291	\$ 24	8.1%
Services charges on deposit accounts	251	213	218	38	17.8
Cards and payments income	203	168	152	35	20.8
Other noninterest income	151	111	108	40	36.0
Total noninterest income	\$ 925	\$ 788	\$ 769	\$ 137	17.4%
AVERAGE DEPOSITS OUTSTANDING					
NOW and money market deposit accounts	\$ 35,622	\$ 28,400	\$ 27,520	\$ 7,222	25.4%
Savings deposits	3,607	2,363	2,436	1,244	52.6
Certificates of deposits (\$100,000 or more)	2,694	1,588	2,048	1,106	69.6
Other time deposits	4,060	3,112	3,489	948	30.5
Deposits in foreign office	—	277	314	(277)	N/M
Noninterest-bearing deposits	17,912	15,423	14,509	2,489	16.1
Total deposits	\$ 63,895	\$ 51,163	\$ 50,316	\$ 12,732	24.9%
HOME EQUITY LOANS					
Average balance	\$ 11,058	\$ 10,266	\$ 10,340		
Weighted-average loan-to-value ratio (at date of origination)	71%	71%	71%		
Percent first lien positions	57	61	60		
OTHER DATA					
Branches	1,217	966	994		
Automated teller machines	1,593	1,256	1,287		

Key Corporate Bank summary of operations

As shown in Figure 15, Key Corporate Bank recorded net income attributable to Key of \$634 million for 2016, compared to \$536 million for 2015 and \$544 million for 2014. The 2016 increase was driven by an increase in revenue, partially offset by increases in the provision for credit losses and noninterest expense.

Taxable-equivalent net interest income increased \$161 million, or 18.2%, in 2016 compared to 2015. This increase is primarily due to growth in balances, with average loan and lease balances increasing \$6.1 billion, or 23.5%, and average deposit balances increasing \$1.7 billion, or 9.1%. The balance increases are due to the First Niagara acquisition and growth in core businesses.

Noninterest income increased \$88 million, or 9.5%, from 2015. Investment banking and debt placement fees increased \$32 million driven by growth in financial advisory, equity capital markets, and mortgage banking fees. Other noninterest income increased \$26 million mostly driven by gains related to certain investments held by the Real Estate Capital line of business and higher trading income. Cards and payments income increased \$15 million due to higher purchase and pre-paid card revenue.

The provision for credit losses increased \$17 million, or 16.5%, from 2015, primarily due to higher net loan charge-offs.

Noninterest expense increased \$144 million, or 14.6%, from 2015. Personnel expense increased \$56 million due to higher salaries, incentive compensation, benefits, and stock-based compensation expense largely related to the acquisition of First Niagara as well as higher performance-based compensation. Nonpersonnel expense increased \$88 million due to higher operating lease expense, cards and payments processing, FDIC assessment, and other various expenses related to the acquisition of First Niagara.

In 2015, Key Corporate Bank's net income attributable to Key decreased \$8 million from the prior year. Taxable-equivalent net interest income increased \$45 million in 2015 compared to 2014, due to increases in both earning asset spread and deposit and borrowing spread related to higher balance levels. Noninterest income increased \$119 million due to increases in investment banking and debt placement fees, other noninterest income, corporate services income, and trust and investment services income. The provision for credit losses increased \$89 million mostly due to increased net loan charge-offs and higher provision for unfunded commitments. Noninterest expense increased \$109 million mostly due to personnel expense related to the performance of the Key Corporate Bank and the full year impact of the Pacific Crest Securities acquisition, as well as increases in various other expense categories.

Figure 15. Key Corporate Bank

Year ended December 31, <i>dollars in millions</i>	2016	2015	2014	Change 2016 vs. 2015		
				Amount	Percent	
SUMMARY OF OPERATIONS						
Net interest income (TE)	\$ 1,048	\$ 887	\$ 842	\$ 161	18.2%	
Noninterest income	1,014	926	807	88	9.5	
Total revenue (TE)	2,062	1,813	1,649	249	13.7	
Provision for credit losses	120	103	14	17	16.5	
Noninterest expense	1,127	983	874	144	14.6	
Income (loss) before income taxes (TE)	815	727	761	88	12.1	
Allocated income taxes and TE adjustments	183	190	215	(7)	(3.7)	
Net income (loss)	632	537	546	95	17.7	
Less: Net income (loss) attributable to noncontrolling interests	(2)	1	2	(3)	N/M	
Net income (loss) attributable to Key	\$ 634	\$ 536	\$ 544	\$ 98	18.3%	
AVERAGE BALANCES						
Loans and leases	\$ 31,935	\$ 25,865	\$ 22,978	\$ 6,070	23.5%	
Loans held for sale	934	937	549	(3)	(.3)	
Total assets	37,801	31,546	28,070	6,255	19.8	
Deposits	20,783	19,043	17,094	1,740	9.1	

ADDITIONAL KEY CORPORATE BANK DATA

Year ended December 31, <i>dollars in millions</i>	2016	2015	2014	Change 2016 vs. 2015	
				Amount	Percent
NONINTEREST INCOME					
Trust and investment services income	\$ 144	\$ 137	\$ 112	\$ 7	5.1%
Investment banking and debt placement fees	471	439	392	32	7.3
Operating lease income and other leasing gains	56	62	64	(6)	(9.7)
Corporate services income	156	155	132	1	.6
Service charges on deposit accounts	51	43	43	8	18.6
Cards and payments income	30	15	14	15	100.0
Payments and services income	237	213	189	24	11.3
Mortgage servicing fees	53	48	46	5	10.4
Other noninterest income	53	27	4	26	96.3
Total noninterest income	\$ 1,014	\$ 926	\$ 807	\$ 88	9.5%

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 \$83 million for 2016, compared to \$125 million for 2015, and \$156 million for 2014. Taxable-equivalent net interest income decreased \$36 million, and noninterest income declined \$30 million compared to 2015, due to lower gains from principal investments.

In 2015, Other Segments' net income attributable to Key decreased \$31 million from the prior year. Taxable-equivalent net interest income decreased \$31 million and noninterest income decreased \$48 million. These decreases in revenue were partially offset by a decline in noninterest expense of \$23 million in 2015, primarily due to lower personnel expense.

Financial Condition

Loans and loans held for sale

Figure 16 shows the composition of our loan portfolio at December 31 for each of the past five years.

Figure 16. Composition of Loans

December 31, dollars in millions	2016		2015		2014	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
COMMERCIAL						
Commercial, financial and agricultural ^(a)	\$ 39,768	46.2%	\$ 31,240	52.2%	\$ 27,982	48.8%
Commercial real estate: ^(b)						
Commercial mortgage	15,111	17.6	7,959	13.3	8,047	14.0
Construction	2,345	2.7	1,053	1.7	1,100	1.9
Total commercial real estate loans	17,456	20.3	9,012	15.0	9,147	15.9
Commercial lease financing ^(c)	4,685	5.5	4,020	6.7	4,252	7.4
Total commercial loans ^(d)	61,909	72.0	44,272	73.9	41,381	72.1
CONSUMER						
Real estate — residential mortgage	5,547	6.4	2,242	3.7	2,225	3.9
Home equity loans	12,674	14.7	10,335	17.3	10,633	18.6
Consumer direct loans	1,788	2.1	1,600	2.7	1,560	2.7
Credit cards	1,111	1.3	806	1.3	754	1.3
Consumer indirect loans	3,009	3.5	621	1.1	828	1.4
Total consumer loans	24,129	28.0	15,604	26.1	16,000	27.9
Total loans ^{(e), (f)}	\$ 86,038	100.0%	\$ 59,876	100.0%	\$ 57,381	100.0%
	2013		2012			
	Amount	Percent of Total	Amount	Percent of Total		
COMMERCIAL						
Commercial, financial and agricultural ^(a)	\$ 24,963	45.8 %	\$ 23,242	44.0%		
Commercial real estate:						
Commercial mortgage	7,720	14.2	7,720	14.6		
Construction	1,093	2.0	1,003	1.9		
Total commercial real estate loans	8,813	16.2	8,723	16.5		
Commercial lease financing ^(c)	4,551	8.4	4,915	9.3		
Total commercial loans	38,327	70.4	36,880	69.8		
CONSUMER						
Real estate — residential mortgage	2,187	4.0	2,174	4.1		
Home equity loans	10,674	19.6	10,239	19.4		
Consumer direct loans	1,449	2.7	1,349	2.5		
Credit cards	722	1.3	729	1.4		
Consumer indirect loans	1,098	2.0	1,451	2.8		
Total consumer loans	16,130	29.6	15,942	30.2		
Total loans ^{(e), (f)}	\$ 54,457	100.0 %	\$ 52,822	100.0%		

- (a) Loan balances include \$116 million, \$85 million, \$88 million, \$94 million, and \$90 million of commercial credit card balances at December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013, and December 31, 2012, respectively.
- (b) See Figure 18 for a more detailed breakdown of our commercial real estate loan portfolio at December 31, 2016, and December 31, 2015.
- (c) Commercial lease financing includes receivables held as collateral for a secured borrowing of \$68 million, \$134 million, \$302 million, and \$58 million at December 31, 2016, 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 19 ("Long-Term Debt").
- (d) See Figure 17 for a more detail breakdown of our commercial loans at December 31, 2016, and December 31, 2015.
- (e) Total loans exclude loans of \$1.6 billion at December 31, 2016, \$1.8 billion at December 31, 2015, \$2.3 billion at December 31, 2014, \$4.5 billion at December 31, 2013, and \$5.2 billion at December 31, 2012, related to the discontinued operations of the education lending business.
- (f) At December 31, 2016, total loans include purchased loans of \$21 billion, of which \$865 million were PCI loans. 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 include purchased loans of \$217 million, of which \$23 million were PCI loans.

At December 31, 2016, total loans outstanding from continuing operations were \$86 billion, compared to \$59.9 billion at the end of 2015. Loans related to the discontinued operations of the education lending business and excluded from total loans were \$1.6 billion at December 31, 2016, and \$1.8 billion at December 31, 2015. Further information regarding our discontinued operations is provided in Note 14 (“Acquisition, Divestiture, 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 \$61.9 billion at December 31, 2016, an increase of \$17.6 billion, or 39.8%, compared to December 31, 2015.

Figure 17 provides our commercial loan portfolio by industry classification as of December 31, 2016, and December 31, 2015.

Figure 17. Commercial Loans by Industry

December 31, 2016	Commercial, financial and agricultural		Commercial real estate		Commercial lease financing		Total commercial loans	Percent of total
<i>dollars in millions</i>								
Industry classification:								
Agricultural	\$	844	\$	194	\$	151	\$ 1,189	1.9%
Automotive		2,139		491		74	2,704	4.4
Business products		1,243		152		31	1,426	2.3
Business services		2,648		179		303	3,130	5.1
Commercial real estate		4,759		11,235		2	15,996	25.8
Construction materials and contractors		1,282		307		79	1,668	2.7
Consumer discretionary		3,367		539		314	4,220	6.8
Consumer services		2,281		749		66	3,096	5.0
Equipment		1,582		107		87	1,776	2.9
Financial		3,864		95		296	4,255	6.9
Healthcare		3,487		2,577		526	6,590	10.6
Materials manufacturing and mining		2,743		276		212	3,231	5.2
Media		478		18		70	566	.9
Oil and gas		1,094		27		62	1,183	1.9
Public exposure		2,621		311		1,204	4,136	6.7
Technology		485		6		34	525	.8
Transportation		940		148		923	2,011	3.3
Utilities		3,441		26		251	3,718	6.0
Other		470		19		—	489	.8
Total	\$	39,768	\$	17,456	\$	4,685	\$ 61,909	100.0%
December 31, 2015	Commercial, financial and agricultural		Commercial real estate		Commercial lease financing		Total commercial loans	Percent of total
<i>dollars in millions</i>								
Industry classification:								
Agricultural	\$	745	\$	147	\$	143	\$ 1,035	2.3%
Automotive		1,736		387		31	2,154	4.9
Business products		1,093		115		40	1,248	2.8
Business services		2,222		116		293	2,631	5.9
Commercial real estate		3,906		5,387		2	9,295	21.0
Construction materials and contractors		750		141		67	958	2.2
Consumer discretionary		2,521		347		270	3,138	7.1
Consumer services		1,683		452		73	2,208	5.0
Equipment		1,170		79		50	1,299	2.9
Financial		3,347		68		270	3,685	8.3
Healthcare		3,089		1,281		493	4,863	11.0
Materials manufacturing and mining		2,074		164		183	2,421	5.5
Media		349		22		88	459	1.0
Oil and gas		1,080		52		67	1,199	2.7
Public exposure		1,477		148		856	2,481	5.6
Technology		354		5		22	381	.9
Transportation		806		90		836	1,732	3.9
Utilities		2,482		5		236	2,723	6.2
Other		356		6		—	362	.8
Total	\$	31,240	\$	9,012	\$	4,020	\$ 44,272	100.0%

Commercial, financial and agricultural. Our commercial, financial and agricultural loans, also referred to as “commercial and industrial,” represented 46% of our total loan portfolio at December 31, 2016, and 52% at December 31, 2015, and is 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.

We have experienced growth in new high credit quality loan commitments and utilization with clients in our middle market segment and KeyBank Capital Markets. Our two largest industry classifications — commercial real estate and healthcare — increased by 21.8% and 12.9%, respectively, when compared to one year ago. The commercial real estate and healthcare industries represented approximately 12.0% and 8.8%, respectively, of the total commercial, financial and agricultural loan portfolio at December 31, 2016, and approximately 12.5% and 9.9%, respectively, at December 31, 2015. In addition, utilities and financial, which represented approximately 8.7% and 9.7%, respectively, of the commercial, financial and agricultural loan portfolio at December 31, 2016, increased 38.6% and 15.4%, respectively, from one year ago. The increases in our utilities and financial portfolios were due to the acquisition of First Niagara.

Our oil and gas loan portfolio represented \$1.1 billion of outstanding commercial, financial and agricultural loans, or 1% of total loans outstanding at December 31, 2016. We have nearly 16 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 57% of our exposure, is primarily secured by oil and gas reserves, subject to a borrowing base, and is 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 oil and gas sector were approximately \$3.2 billion at December 31, 2016.

Commercial real estate loans. Our commercial real estate lending business is conducted through two primary sources: our 15-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 69% of our average year-to-date commercial real estate loans, compared to 68% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of commercial real estate.

Commercial real estate loans totaled \$17.5 billion at December 31, 2016, and \$9 billion at December 31, 2015, and represented 20% and 15% of our total loan portfolio at December 31, 2016, and December 31, 2015, respectively. The increase from December 31, 2015, was due to the acquisition of First Niagara. These loans, which include both owner- and nonowner-occupied properties, represented 28% and 20% of our commercial loan portfolio at December 31, 2016, and December 31, 2015, respectively. We continue to de-risk the portfolio by changing our focus from developers to owners of completed and stabilized commercial real estate.

Figure 18 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 18, this loan portfolio is diversified by both property type and geographic location of the underlying collateral. Our growth in the Northeast region was primarily attributable to the acquisition of First Niagara.

As presented in Figure 18, at December 31, 2016, our commercial real estate portfolio included mortgage loans of \$15.1 billion and construction loans of \$2.3 billion, representing 18% and 3%, respectively, of our total loans. At December 31, 2016, nonowner-occupied loans represented 16% of our total loans and owner-occupied loans represented 4% of our total loans. The average size of mortgage loans originated during the fourth quarter of 2016 was \$5.6 million, and our largest mortgage loan at December 31, 2016, had a balance of \$74.1 million. At December 31, 2016, our average construction loan commitment was \$9.4 million, our largest construction loan commitment was \$65 million, and our largest construction loan amount outstanding was \$32.3 million.

Also shown in Figure 18, 78% of our commercial real estate loans at December 31, 2016, were for nonowner-occupied properties compared to 72% at December 31, 2015. Approximately 17% of these loans were construction loans at December 31, 2016, and 15% were construction loans at December 31, 2015. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn rental rates and occupancy, would adversely affect our portfolio of construction loans.

Figure 18. Commercial Real Estate Loans

dollars in millions	Geographic Region								Total	Percent of Total	Construction	Commercial Mortgage									
	West	Southwest	Central	Midwest	Southeast	Northeast	National														
December 31, 2016																					
Nonowner-occupied:																					
Retail properties	\$	185	\$	99	\$	78	\$	414	\$	252	\$	719	\$	236	\$	1,983	11.4%	\$	191	\$	1,792
Multifamily properties		369		137		690		653		962		2,300		129		5,240	30.0		1,397		3,843
Health facilities		229		—		139		164		406		1,188		147		2,273	13.0		133		2,140
Office buildings		105		7		202		186		259		1,126		24		1,909	11.0		197		1,712
Warehouses		68		29		84		108		111		423		18		841	4.8		77		764
Manufacturing facilities		6		—		2		41		2		42		63		156	.9		10		146
Hotels/Motels		14		—		16		5		24		179		—		238	1.4		49		189
Residential properties		1		—		20		1		2		206		—		230	1.3		77		153
Land and development		2		—		—		10		17		162		—		191	1.1		109		82
Other		48		12		2		57		51		347		83		600	3.4		45		555
Total nonowner-occupied		1,027		284		1,233		1,639		2,086		6,692		700		13,661	78.3		2,285		11,376
Owner-occupied		1,005		7		275		642		218		1,648		—		3,795	21.7		60		3,735
Total	\$	2,032	\$	291	\$	1,508	\$	2,281	\$	2,304	\$	8,340	\$	700	\$	17,456	100.0%	\$	2,345	\$	15,111
December 31, 2015																					
Total	\$	2,163	\$	277	\$	1,309	\$	1,671	\$	1,721	\$	1,282	\$	589	\$	9,012		\$	1,053	\$	7,959
December 31, 2016																					
Nonowner-occupied:																					
Nonperforming loans		1		—		—	\$	7	\$	1	\$	13		—	\$	22	N/M	\$	2	\$	20
Accruing loans past due 90 days or more		—		—		—		3		—		2		—		5	N/M		—		5
Accruing loans past due 30 through 89 days	\$	2		—		—		3		12		56		—		73	N/M		5		68

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

Nonperforming loans related to nonowner-occupied properties increased by \$6 million from December 31, 2015, to \$22 million at December 31, 2016. Our nonowner-occupied commercial real estate portfolio has increased by 109.4%, or approximately \$7.1 billion, since December 31, 2015, primarily due to the First Niagara acquisition. The increase also reflects many of our clients who have taken advantage of opportunities to permanently refinance their loans at historically low interest rates.

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 8% of commercial loans at December 31, 2016, and 9% of commercial loans at December 31, 2015.

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 TDR 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 2016, we had \$37 million of new TDR commercial loans compared to \$43 million of new TDR commercial loans in 2015.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 6 (“Asset Quality”).

Figure 19. Commercial TDRs by Accrual Status

December 31, in millions	2016	2015
Commercial TDRs by Accrual Status		
Nonaccruing	\$ 51	\$ 52
Accruing	16	2
Total Commercial TDRs	\$ 67	\$ 54

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.

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 TDR 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, 2016, we had \$67 million of A note commercial TDRs. We did not have any B note commercial TDRs at December 31, 2016.

Additional information regarding TDRs is provided in Note 6 (“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.

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, 2016, we had one mortgage loan that had a loan-to-value ratio greater than 1.0.

Consumer loan portfolio

Consumer loans outstanding increased by \$8.5 billion, or 54.6%, from one year ago, largely due to the acquisition of First Niagara, partially offset by paydowns in our home equity loan portfolio.

The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 99% of this portfolio at December 31, 2016, was originated from our Key Community Bank within our 15-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 increased by \$2.4 billion, or 23%, over the past twelve months, primarily due to the acquisition of First Niagara.

As shown in Figure 14, we held the first lien position for approximately 57% of the Key Community Bank home equity portfolio at December 31, 2016, and 61% at December 31, 2015. 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 ratios. 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."

At December 31, 2016, 43% of our home equity portfolio was 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.

Figure 20 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 20. Home Equity Loans

December 31, <i>dollars in millions</i>	2016	2015	2014	2013	2012
Home Equity Loans	<u>\$ 12,674</u>	<u>\$ 10,335</u>	<u>\$ 10,633</u>	<u>\$ 10,674</u>	<u>\$ 10,239</u>
Nonperforming loans at year end ^{(a), (b), (c)}	<u>\$ 223</u>	<u>\$ 190</u>	<u>\$ 195</u>	<u>\$ 220</u>	<u>\$ 231</u>
Net loan charge-offs for the year	16	21	32	66	118
Yield for the year	4.04%	3.98%	4.02%	4.07%	4.21%

- (a) Nonperforming loans exclude \$30 million of PCI loans at December 31, 2016.
- (b) December 31, 2012, 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.
- (c) December 31, 2012, 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 5 (“Loans and Loans Held for Sale”), our loans held for sale were \$1.1 billion at December 31, 2016, compared to \$639 million at December 31, 2015.

At December 31, 2016, loans held for sale included \$1 billion of commercial mortgages, which increased by \$490 million from December 31, 2015, \$19 million of commercial, financial and agricultural loans, which decreased by \$57 million from December 31, 2015, and \$62 million of residential mortgage loans, which increased by \$45 million from December 31, 2015. We did not have any commercial lease financing loans held for sale at December 31, 2016, a decrease of \$14 million from December 31, 2015. 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 7 (“Fair Value Measurements”).

Loan sales

As shown in Figure 21, which summarizes our loan sales for 2016 and 2015, during 2016, we sold \$6.8 billion of commercial real estate loans, \$354 million of commercial lease financing loans, \$692 million of residential real estate loans, and \$317 million of commercial loans. Most of these sales came from the held-for-sale portfolio; however, \$140 million of these loan sales related to the held-to-maturity 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;
- the cost of alternative funding sources;
- the level of credit risk;
- capital requirements; and
- market conditions and pricing.

Figure 21. Loans Sold (Including Loans Held for Sale)

<i>in millions</i>	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2016					
Fourth quarter	\$ 83	\$ 2,521	\$ 93	\$ 232	\$ 2,929
Third quarter	105	1,791	52	260	2,208
Second quarter	83	1,518	121	111	1,833
First quarter	46	925	88	89	1,148
Total	\$ 317	\$ 6,755	\$ 354	\$ 692	\$ 8,118
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

Figure 22 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 22. Loans Administered or Serviced

December 31, <i>in millions</i>	2016	2015	2014	2013	2012
Commercial real estate loans	\$ 218,135	\$ 211,274	\$ 191,407	\$ 177,731	\$ 107,630
Residential mortgage	4,198	—	—	—	—
Education loans	1,122	1,339	1,589	—	—
Commercial lease financing	899	932	722	717	520
Commercial loans	418	335	344	327	343
Total	\$ 224,772	\$ 213,880	\$ 194,062	\$ 178,775	\$ 108,493

In the event of default by a borrower, we are subject to recourse with respect to approximately \$2.5 billion of the \$224.8 billion of loans administered or serviced at December 31, 2016. Additional information about this recourse arrangement is included in Note 21 (“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 10 (“Mortgage Servicing Assets”).

Maturities and sensitivity of certain loans to changes in interest rates

Figure 23 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, 2016, approximately 26.7% of these outstanding loans were scheduled to mature within one year.

Figure 23. Remaining Maturities and Sensitivity of Certain Loans to Changes in Interest Rates

December 31, 2016 <i>in millions</i>	Within One Year	One - Five Years	Over Five Years	Total
Commercial, financial and agricultural	\$ 11,482	\$ 22,195	\$ 6,091	\$ 39,768
Real estate — construction	956	1,049	340	2,345
Real estate — residential and commercial mortgage	4,294	9,666	6,698	20,658
	\$ 16,732	\$ 32,910	\$ 13,129	\$ 62,771
Loans with floating or adjustable interest rates ^(a)		\$ 28,013	\$ 8,989	\$ 37,002
Loans with predetermined interest rates ^(b)		4,897	4,140	9,037
		\$ 32,910	\$ 13,129	\$ 46,039

- (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 \$30.4 billion at December 31, 2016, compared to \$19.1 billion at December 31, 2015. Available-for-sale securities were \$20.2 billion at December 31, 2016, compared to \$14.2 billion at December 31, 2015. Held-to-maturity securities were \$10.2 billion at December 31, 2016, compared to \$4.9 billion at December 31, 2015.

As shown in Figure 24, 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 7 (“Fair Value Measurements”) under the heading “Qualitative Disclosures of Valuation Techniques,” and Note 8 (“Securities”).

Figure 24. Mortgage-Backed Securities by Issuer

December 31, in millions	2016	2015
FHLMC	\$ 6,415	\$ 4,349
FNMA	9,879	4,511
GNMA	13,920	10,152
Total ^(a)	\$ 30,214	\$ 19,012

(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 provide liquidity value under regulatory requirements. At December 31, 2016, we had \$20.0 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to \$14.2 billion at December 31, 2015.

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.

Our investing activities continue 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 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 high quality liquid assets, including GNMA-related securities, is related to liquidity management strategies to satisfy regulatory requirements.

Figure 25 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 8 (“Securities”).

Figure 25. Securities Available for Sale

<i>dollars in millions</i>	U.S. Treasury, Agencies, and Corporations	States and Political Subdivisions	Agency Residential Collateralized Mortgage Obligations ^{(a),(b)}	Agency Residential Mortgage- backed Securities ^{(a),(b)}	Agency Commercial Mortgage- backed Securities ^(a)	Other Securities	Total	Weighted- Average Yield ^(d)
December 31, 2016								
Remaining maturity:								
One year or less	\$ 18	\$ 1	\$ 156	\$ 18	—	—	\$ 193	2.78%
After one through five years	54	10	14,640	1,741	1,651	13	18,109	1.99
After five through ten years	111	—	1,612	76	92	7	1,898	1.99
After ten years	1	—	—	11	—	—	12	2.89
Fair value	\$ 184	\$ 11	\$ 16,408	\$ 1,846	\$ 1,743	\$ 20	\$ 20,212	—
Amortized cost	188	11	16,652	1,857	1,778	21	20,507	2.00%
Weighted-average yield ^(c)	1.51%	9.95%	1.98%	2.04%	2.20%	.01% ^(d)	2.00% ^(d)	—
Weighted-average maturity	4.7 years	2.5 years	4.0 years	3.5 years	3.8 years	3.4 years	3.9 years	—
December 31, 2015								
Fair value	—	\$ 14	\$ 11,995	\$ 2,189	—	\$ 20	\$ 14,218	—
Amortized cost	—	14	12,082	2,193	—	21	14,310	2.14%
December 31, 2014								
Fair value	—	\$ 23	\$ 11,270	\$ 2,035	—	\$ 32	\$ 13,360	—
Amortized cost	—	22	11,310	2,004	—	29	13,365	2.24%

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

(b) “Collateralized Mortgage Obligations” and “Other Mortgage-backed Securities” were renamed to “Agency Residential Collateralized Mortgage Obligations” and “Agency Residential Mortgage-backed Securities” in September 2016. There was no reclassification of previously reported balances.

(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 \$10 million of securities at December 31, 2016, that have no stated yield.

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. Figure 26 shows the composition, yields and remaining maturities of these securities.

Figure 26. Held-to-Maturity Securities

<i>dollars in millions</i>	Agency Residential Collateralized Mortgage Obligations ^(a)	Agency Residential Mortgage-backed Securities ^(a)	Agency Commercial Mortgage-backed Securities ^(a)	Other Securities	Total	Weighted- Average Yield ^(b)
December 31, 2016						
Remaining maturity:						
One year or less	\$ 52	—	—	\$ 2	\$ 54	2.44%
After one through five years	6,665	\$ 214	—	13	6,892	1.91
After five through ten years	1,687	415	\$ 576	—	2,678	2.24
After ten years	—	—	608	—	608	2.66
Amortized cost	\$ 8,404	\$ 629	\$ 1,184	\$ 15	\$ 10,232	2.05%
Fair value	8,232	624	1,136	15	10,007	—
Weighted-average yield ^(b)	1.92%	2.63%	2.62%	2.76%	2.05%	—
Weighted-average maturity	4.1 years	5.8 years	10.1 years	2.0 years	4.9 years	—
December 31, 2015						
Amortized cost	\$ 4,174	\$ 703	—	\$ 20	\$ 4,897	2.01%
Fair value	4,129	699	—	20	4,848	—
December 31, 2014						
Amortized cost	\$ 4,755	\$ 240	—	\$ 20	\$ 5,015	1.95%
Fair value	4,713	241	—	20	4,974	—

(a) “Collateralized Mortgage Obligations” and “Other Mortgage-backed Securities” were renamed to “Agency Residential Collateralized Mortgage Obligations” and “Agency Residential Mortgage-backed Securities” in September 2016. There was no reclassification of previously reported balances.

(b) 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%.

Other investments

Principal investments — investments in equity and debt instruments made by our Principal Investing unit — represented 25% and 46% of other investments at December 31, 2016, and December 31, 2015, 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 \$27 million at December 31, 2016, and \$69 million at December 31, 2015, while the fair value of the indirect investments was \$158 million at December 31, 2016, and \$235 million at December 31, 2015. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. The Federal Reserve extended the conformance period to July 21, 2017, for all banking entities with respect to covered funds. On January 13, 2017, Key filed for an additional extension for illiquid funds, to retain certain indirect investments until the earlier of the date on which the investment is conformed or is expected to mature or July 21, 2022. The application for an extension was approved on February 14, 2017. As of December 31, 2016, we have 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 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 real-estate-related investments 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 \$6 million at December 31, 2016, and \$8 million at December 31, 2015. Additional information pertaining to these investments are included in the “Changes in Level 3 Fair Value Measurements” section of Note 7 (“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, 2016, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled \$20 million, which includes \$58 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 7.

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 2016, average domestic deposits were \$86.4 billion and represented 85% of the funds we used to support loans and other earning assets, compared to \$70.1 billion and 85% during 2015. The increase was primarily attributable to the acquisition of First Niagara, higher interest-bearing deposits resulting from core deposit growth in our retail banking franchise, and growth in escrow deposits from the commercial mortgage servicing business.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged \$1.3 billion during 2016, compared to \$1.7 billion during 2015. The decrease from 2015 was caused by declines of \$145 million in federal funds purchased and securities sold under repurchase agreements and \$489 million in foreign office deposits, partially offset by an increase of \$280 million in bank notes and other short-term borrowings.

At December 31, 2016, we had \$5.5 billion in time deposits of \$100,000 or more. Figure 27 shows the maturity distribution of these deposits.

Figure 27. Maturity Distribution of Time Deposits of \$100,000 or More

December 31, 2016 <i>in millions</i>	Domestic Offices	Total ^(a)
Remaining maturity:		
Three months or less	\$ 1,316	\$ 1,316
After three through six months	745	745
After six through twelve months	1,154	1,154
After twelve months	2,268	2,268
Total	<u>\$ 5,483</u>	<u>\$ 5,483</u>

(a) There were no deposits in foreign offices at December 31, 2016.

Capital

At December 31, 2016, our shareholders’ equity was \$15.2 billion, up \$4.5 billion from December 31, 2015. 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 and Note 23 (“Shareholders’ Equity”).

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 April 2016, we submitted to the Federal Reserve and provided to the OCC our 2016 capital plan under the annual CCAR process. On June 29, 2016, the Federal Reserve announced that it did not object to our 2016 capital plan. Share repurchases of up to \$350 million were included in the 2016 capital plan, which is effective through the second quarter of 2017. As previously reported, we resumed our share repurchase program under the 2016 capital plan following the close of the First Niagara acquisition. We completed \$133 million of common share repurchases during 2016, including repurchases to offset issuances of common shares under our employee compensation plans.

Dividends

As previously reported, our 2015 capital plan proposed an increase in our quarterly common share dividend from \$.075 to \$.085 per share, which was approved by our Board in May 2016. An additional potential increase in our quarterly common share dividend, up to \$.095 per share, will be considered by the Board for the second quarter of the 2017, consistent with the 2016 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 2016 capital plan, we made a dividend payment of \$.085 per share during each of the second, third, and fourth quarters of 2016, totaling \$235 million, and a dividend payment of \$.075 per share, or \$63 million, during the first quarter of 2016.

We also made quarterly dividend payments of \$1.9375 per share on our Series A Preferred Stock during each quarter of 2016 for a total of \$22 million. In the fourth quarter of 2016 we made a quarterly dividend payment of \$.539063 per share on our Series C Preferred Stock for a total of \$8 million. We also made a quarterly dividend payment of \$13.33 per depositary share on the depositary shares related to our Series D Preferred Stock for a total of \$7 million in the fourth quarter of 2016.

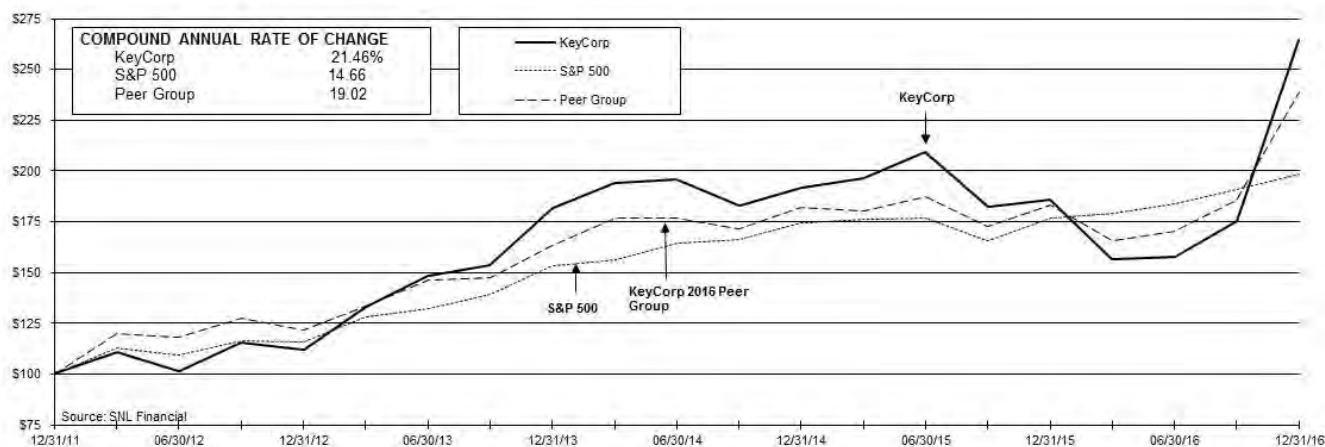
Common shares outstanding

Our common shares are traded on the NYSE under the symbol KEY with 43,291 holders of record at December 31, 2016. Our book value per common share was \$12.58 based on 1.08 billion shares outstanding at December 31, 2016, compared to \$12.51 based on 835.8 million shares outstanding at December 31, 2015. At December 31, 2016, our tangible book value per common share was \$9.99, compared to \$11.22 at December 31, 2015.

Figure 44 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 28 compares the price performance of our common shares (based on an initial investment of \$100 on December 31, 2011, 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.

Figure 28. Common Share Price Performance (2012- 2016)^(a)



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

Figure 29 shows activities that caused the change in our outstanding common shares over the past two years.

Figure 29. Changes in Common Shares Outstanding

<i>in thousands</i>	2016	2016 Quarters				2015
		Fourth	Third	Second	First	
Shares outstanding at beginning of period	835,751	1,082,055	842,703	842,290	835,751	859,403
Common shares repurchased	(9,620)	(4,380)	(5,240)	—	—	(31,267)
Shares reissued (returned) under employee benefit plans	13,451	1,642	4,857	413	6,539	7,582
Series A Preferred Stock exchanged for common shares	—	—	—	—	—	33
Common shares issued to acquire First Niagara	239,732	(3)	239,735	—	—	—
Shares outstanding at end of period	1,079,314	1,079,314	1,082,055	842,703	842,290	835,751

At December 31, 2016, we had 177.4 million treasury shares, compared to 181.2 million treasury shares at December 31, 2015. During 2016, common shares outstanding increased by 244 million shares due to common shares issued to acquire First Niagara and shares reissued under employee benefit plans, partially offset by common share repurchases under our 2016 capital plan. 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 2017 capital plan to the Federal Reserve for review in April 2017.

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, 2016. 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 11.17% at December 31, 2016, compared to 11.30% at December 31, 2015. Our tangible common equity to tangible assets ratio was 8.09% at December 31, 2016, compared to 9.98% at December 31, 2015.

The capital modifications mandated by the Regulatory Capital Rules, which became effective on January 1, 2015, for KeyCorp, require higher and better-quality capital and introduced a new capital measure, “Common Equity Tier 1.” The Regulatory Capital Rules phased out the treatment of certain capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, which began January 1, 2015, for standardized approach banking organizations such as KeyCorp, resulted in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital starting in 2016. The new minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of KeyCorp at December 31, 2016, calculated on a fully phased-in basis, are set forth under the heading “Basel III” in the “Supervision and Regulation” section in Item 1 of this report.

As of January 1, 2016, KeyCorp (and its banking subsidiaries) were each required to maintain, on a consolidated basis, a minimum Tier 1 risk-based capital ratio of 6.0%, a total risk-based capital ratio of 8.0%, and a Tier 1 leverage ratio of 4.0%. At December 31, 2016, our Tier 1 risk-based capital ratio, total risk-based capital ratio, and Tier 1 leverage ratio were 10.89%, 12.85%, and 9.90%, respectively, compared to 11.35%, 12.97%, and 10.72%, respectively, at December 31, 2015. Information regarding the regulatory capital ratios of KeyCorp’s banking subsidiaries is presented in Note 23 (“Shareholders’ Equity”).

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. Beginning with the implementation of the Regulatory Capital Rules, 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, 2016, this balance was \$4 million. As of January 1, 2016, KeyCorp (and its banking subsidiaries) were each required to maintain, on a consolidated basis, a minimum Common Equity Tier 1 capital ratio of 4.5%. Our Common Equity Tier 1 ratio was 9.54% at December 31, 2016.

Figure 30 represents the details of our regulatory capital positions at December 31, 2016, and December 31, 2015, under the Regulatory Capital Rules.

Figure 30. Capital Components and Risk-Weighted Assets

December 31, <i>dollars in millions</i>	2016	2015
COMMON EQUITY TIER 1		
Key shareholders' equity (GAAP)	\$ 15,240	\$ 10,746
Less: Series A Preferred Stock ^(a)	1,640	281
Common Equity Tier 1 capital before adjustments and deductions	13,600	10,465
Less: Goodwill, net of deferred taxes	2,405	1,034
Intangible assets, net of deferred taxes	155	26
Deferred tax assets	4	1
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(185)	(58)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(52)	(20)
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	(339)	(365)
Total Common Equity Tier 1 capital	\$ 11,612	\$ 9,847
TIER 1 CAPITAL		
Common Equity Tier 1	\$ 11,612	\$ 9,847
Additional Tier 1 capital instruments and related surplus	1,640	281
Non-qualifying capital instruments subject to phase out	—	85
Less: Deductions	3	1
Total Tier 1 capital	13,249	10,212
TIER 2 CAPITAL		
Tier 2 capital instruments and related surplus	1,450	578
Allowance for losses on loans and liability for losses on lending-related commitments ^(b)	939	881
Net unrealized gains on available-for-sale preferred stock classified as an equity security	—	—
Less: Deductions	—	—
Total Tier 2 capital	2,389	1,459
Total risk-based capital	\$ 15,638	\$ 11,671
RISK-WEIGHTED ASSETS		
Risk-weighted assets on balance sheet	\$ 94,959	\$ 67,390
Risk-weighted off-balance sheet exposure	25,848	21,983
Market risk-equivalent assets	864	607
Gross risk-weighted assets	121,671	89,980
Less: Excess allowance for loan and lease losses	—	—
Net risk-weighted assets	\$ 121,671	\$ 89,980
AVERAGE QUARTERLY TOTAL ASSETS	\$ 133,795	\$ 95,272
CAPITAL RATIOS		
Tier 1 risk-based capital	10.89%	11.35%
Total risk-based capital	12.85	12.97
Leverage ^(c)	9.90	10.72
Common Equity Tier 1	9.54	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 \$24 million of allowance classified as "discontinued assets" on the balance sheet at December 31, 2016.

(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.

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 12 ("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, 2016, is presented in Note 21 ("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.

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 21 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, 2016, 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, 2016 <i>in millions</i>	Within 1 year	After 1 through 3 years	After 3 through 5 years	After 5 years	Total
Contractual obligations:^(a)					
Deposits with no stated maturity	\$ 93,906	\$ —	\$ —	\$ —	\$ 93,906
Time deposits of \$100,000 or more	3,215	2,064	156	48	5,483
Other time deposits	2,773	1,615	208	102	4,698
Federal funds purchased and securities sold under repurchase agreements	1,502	—	—	—	1,502
Bank notes and other short-term borrowings	808	—	—	—	808
Long-term debt	270	5,123	4,509	2,482	12,384
Noncancelable operating leases	149	248	181	390	968
Liability for unrecognized tax benefits	53	—	—	—	53
Purchase obligations:					
Banking and financial data services	76	26	1	—	103
Telecommunications	11	8	1	—	20
Professional services	9	9	1	—	19
Technology equipment and software	68	56	10	7	141
Other	8	9	—	—	17
Total purchase obligations	172	108	13	7	300
Total	\$ 102,848	\$ 9,158	\$ 5,067	\$ 3,029	\$ 120,102
Lending-related and other off-balance sheet commitments:					
Commercial, including real estate	\$ 14,280	\$ 10,939	\$ 10,225	\$ 1,962	\$ 37,406
Home equity	635	1,085	1,213	6,733	9,666
Credit cards	5,653	—	—	—	5,653
Purchase cards	293	—	—	—	293
When-issued and to-be-announced securities commitments	34	—	—	—	34
Commercial letters of credit	91	48	4	—	143
Principal investing commitments	28	9	—	—	37
Tax credit investment commitments	466	—	—	—	466
Liabilities of certain limited partnerships and other commitments	2	—	—	—	2
Total	\$ 21,482	\$ 12,081	\$ 11,442	\$ 8,695	\$ 53,700

(a) Deposits and borrowings exclude interest.

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 21 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 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 Key Corporate Bank. 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.

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 7 ("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. The 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 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, 2016, and December 31, 2015. 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 \$1.9 million at December 31, 2016, and \$1.2 million at December 31, 2015. The increase in aggregate VaR was primarily due to 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, 2016, and December 31, 2015. 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

in millions	2016				2015			
	Three months ended December 31,			December 31,	Three months ended December 31,			December 31,
	High	Low	Mean		High	Low	Mean	
Trading account assets:								
Fixed income	\$ 1.5	\$.4	\$.9	\$ 1.5	\$ 1.0	\$.4	\$.6	\$.5
Derivatives:								
Interest rate	\$.1	—	\$.1	\$.1	\$.1	—	\$.1	\$.1
Credit	.3	—	.2	.1	.4	.2	.3	.4

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 \$4.1 million at December 31, 2016, and \$3.5 million at December 31, 2015. Figure 33 summarizes our stressed VaR for significant portfolios of covered positions for the three months ended December 31, 2016, and December 31, 2015, as used for market risk capital charge calculation purposes.

Figure 33. Stressed VaR for Significant Portfolios of Covered Positions

in millions	2016				2015			
	Three months ended December 31,			December 31,	Three months ended December 31,			December 31,
	High	Low	Mean		High	Low	Mean	
Trading account assets:								
Fixed income	\$ 3.4	\$ 1.3	\$ 2.5	\$ 3.1	\$ 3.0	\$ 1.3	\$ 1.9	\$ 1.5
Derivatives:								
Interest rate	\$.3	\$.1	\$.2	\$.3	\$.3	\$.1	\$.2	\$.3
Credit	.6	.1	.4	.1	1.3	.5	.9	1.3

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 customer 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.

- **“Reprice risk”** is the exposure to changes in the level of 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.
- **“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, and balance sheet growth projections based on a most likely macroeconomic view. While simulation modeling assumes that residual risk exposures are managed within the risk appetite and Board approved policy limits, the results also reflect management’s desired interest rate risk positioning. Achieving the current modeled position typically requires purchases of investment securities to replace security cash flows and the execution of new interest rate swaps. The simulation model estimates the amount of net interest income at risk by simulating the change in net interest income that would occur if interest rates were to gradually increase or decrease over the next 12 months. Our standard rate scenarios encompass a gradual, parallel increase or decrease of 200 basis points, but due to the low interest rate environment, we have modified the standard decrease scenario to a gradual, parallel decrease of 75 basis points over five months with no change over the following seven 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.

Figure 34 presents the results of the simulation analysis at December 31, 2016, and December 31, 2015. At December 31, 2016, our simulated impact to changes in interest rates was modestly asset sensitive. Tolerance levels for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual, parallel 200 basis point increase or 75 basis point decrease in interest rates over the next 12 months would adversely affect net interest income over the same period by more than 5.5%. In December 2016, the Federal Reserve increased the range for the Federal Funds Target Rate, which led to an increase in the magnitude of the declining rate scenario to 75 basis points. As a result of the change, our modeled exposure to declining rates increased. The modeled exposure depends on the relationships of interest rates on our interest earning assets and interest bearing liabilities. As shown in Figure 34, we are operating within these levels as of December 31, 2016.

Figure 34. Simulated Change in Net Interest Income

December 31, 2016		
Basis point change assumption (short-term rates)	-75	+200
Tolerance level	-5.50%	-5.50%
Interest rate risk assessment	-2.94%	1.13%
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 %

Simulation analysis produces a sophisticated estimate of interest rate exposure based on judgments related to assumption inputs into the model. We tailor assumptions to the specific interest rate environment and yield curve shape being modeled, and validate those assumptions on a regular basis. 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, changes in management's desired interest rate risk positioning, investment, funding and hedging activities, and repercussions from unanticipated or unknown events.

We also perform regular stress tests and sensitivity analyses on the model inputs that could materially change the resulting risk assessments. Assessments are performed using different shapes of the yield curve, including steepening or flattening of the yield curve, changes in credit spreads, immediate changes in market interest rates, and changes in the relationship of money market interest rates. Assessments are also performed on changes to the following assumptions: loan and deposit balances, the pricing of deposits without contractual maturities, changes in lending spreads, prepayments on loans and securities, investment, funding and hedging activities, and liquidity and capital management strategies.

The results of additional assessments indicate 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 modeling is sensitive to the volume of fixed rate assets and liabilities incorporated. The modeling currently assumes approximately \$28 billion of investment security purchases and swap executions over the next three years. For every immediate reduction in fixed rate assets of \$1 billion, the modeled benefit to rising rates would increase by approximately 30 basis points. The low level of interest rates increases the uncertainty of assumptions for deposit balance behavior and deposit repricing relationships to market interest rates. 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, with the modeled betas varying by customer segment and product type. Recent deposit repricing has been lower than our modeled assumptions. In the modeling, if the deposit beta for the first 25 basis point move in the Fed Funds Target Rate was zero, then returned to the standard modeled betas for the next 175 basis points of rate increases, our modeled asset sensitive benefit would increase by approximately 200 basis points. The sensitivity testing of assumptions supports our confidence that actual results are likely to be within 100 basis points of modeled results.

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. Treasury discretionary activities related to funding, investing, and hedging may also change as a result of changes in customer business flows, or changes in management's desired interest rate risk positioning. 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, 2016.

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 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 9 (“Derivatives and Hedging Activities”).

Figure 35. Portfolio Swaps by Interest Rate Risk Management Strategy

dollars in millions	December 31, 2016						December 31, 2015	
	Notional Amount	Fair Value	Weighted-Average				Notional Amount	Fair Value
			Maturity (Years)	Receive Rate	Pay Rate			
Receive fixed/pay variable — conventional A/LM ^(a)	\$ 15,550	\$ (47)	2.0	1.1%	.6%		\$ 11,705	\$ 4
Receive fixed/pay variable — conventional debt	8,616	93	3.3	1.6	.7		7,004	189
Pay fixed/receive variable — conventional debt	50	(6)	11.5	.8	3.6		50	(7)
Total portfolio swaps	\$ 24,216	\$ 40 ^(b)	2.5	1.3%	.7%		\$ 18,759	\$ 186 ^(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 \$54 million and \$56 million for December 31, 2016, and December 31, 2015, 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.

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.

Our credit ratings at December 31, 2016, 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

December 31, 2016	Short-Term Borrowings	Long-Term Deposits	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Preferred Stock
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	BB(high)
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 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, 2016, totaled \$24.2 billion, consisting of \$21.7 billion of unpledged securities, \$416 million of securities available for secured funding at the FHLB, and \$2.1 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, 2016, our unused borrowing capacity secured by loan collateral was \$27.4 billion at the Federal Reserve Bank of Cleveland and \$6.4 billion at the FHLB of Cincinnati. In 2016, Key's outstanding FHLB of Cincinnati advances were reduced by \$40 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. At December 31, 2016, 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 Rules and Modified LCR is included in the "Supervision and Regulation" section under the heading "Regulatory capital requirements - Liquidity requirements" 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, 2016, our loan-to-deposit ratio was 85%), 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 19 ("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 March 8, 2016, KeyBank issued \$1 billion of 2.35% Senior Bank Notes due March 8, 2019, under its Global Bank Note Program.

On May 20, 2016, KeyBank issued \$600 million of 3.40% Subordinated Bank Notes due May 20, 2026, under its Global Bank Note Program.

On August 22, 2016, KeyBank issued \$500 million of 1.60% Senior Bank Notes due August 22, 2019, under its Global Bank Note Program.

On September 9, 2016, KeyCorp issued \$525 million of depositary shares, each representing a 1/25th ownership interest in a share of our fixed-to-floating rate perpetual noncumulative Series D Preferred Stock. Our Series D Preferred Stock has a \$1 par value with a \$25,000 liquidation preference.

On November 22, 2016, KeyBank issued \$500 million of 2.50% Senior Bank Notes and \$250 million of Floating Rate Senior Bank Notes indexed to 3-month LIBOR, both due November 22, 2021, under its Global Bank Note Program.

On December 12, 2016, KeyCorp issued \$500 million of depository shares, each representing a 1/40th ownership interest in a share of our fixed-to-floating rate perpetual noncumulative Series E Preferred stock. Our Series E Preferred Stock has a \$1 par value with a \$1,000 liquidation preference.

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, 2016, KeyCorp held \$3.4 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 2016, KeyBank paid \$625 million in dividends to KeyCorp, while other non-bank subsidiaries paid \$50 million in dividends to KeyCorp. At January 1, 2017, KeyBank had regulatory capacity to pay \$224 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.

We generate cash flows from operations and from investing and financing activities. We have approximately \$169 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of December 31, 2016. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately \$3 million in taxes to be paid. We have included the appropriate amount as a deferred tax liability at December 31, 2016.

The Consolidated Statements of Cash Flows summarize our sources and uses of cash by type of activity for the years ended December 31, 2016, and December 31, 2015.

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 \$2.1 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, 2016, we had seven client relationships with loan commitments net of credit default swaps of more than \$200 million. The average amount outstanding on these seven individual net obligor commitments was \$55 million at December 31, 2016. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

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, 2016, we used credit default swaps with a notional amount of \$210 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, 2016, 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, 2016, the ALLL was \$858 million, or 1.00% of period-end loans, compared to \$796 million, or 1.33%, at December 31, 2015. The allowance includes \$37 million that was specifically allocated for impaired loans of \$501 million at December 31, 2016, compared to \$35 million that was specifically allocated for impaired loans of \$308 million at December 31, 2015. For more information about impaired loans, see Note 6 ("Asset Quality"). At December 31, 2016, the ALLL was 137.3% of nonperforming loans, compared to 205.7% at December 31, 2015.

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>	2016	2015	2014	2013	2012
Net loan charge-offs	\$ 205	\$ 142	\$ 113	\$ 168	\$ 345
Net loan charge-offs to average total loans	.29%	.24%	.20%	.32%	.69%
Allowance for loan and lease losses	\$ 858	\$ 796	\$ 794	\$ 848	\$ 888
Allowance for credit losses ^(a)	913	852	829	885	917
Allowance for loan and lease losses to period-end loans	1.00%	1.33%	1.38%	1.56%	1.68%
Allowance for credit losses to period-end loans	1.06	1.42	1.44	1.63	1.74
Allowance for loan and lease losses to nonperforming loans	137.3	205.7	190.0	166.9	131.8
Allowance for credit losses to nonperforming loans	146.1	220.2	198.3	174.2	136.1
Nonperforming loans at period end ^(b)	\$ 625	\$ 387	\$ 418	\$ 508	\$ 674
Nonperforming assets at period end	676	403	436	531	735
Nonperforming loans to period-end portfolio loans	.73%	.65%	.73%	.93%	1.28%
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	.79	.67	.76	.97	1.39

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

(b) Nonperforming loan balances exclude \$865 million, \$11 million, \$13 million, \$16 million, and \$23 million of PCI loans at December 31, 2016, 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 incurred loss rates to existing loans with similar risk characteristics. We exercise judgment to assess any adjustment to the incurred 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.

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, 2016, represents our best estimate of the incurred 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 \$62 million, or 7.8%, since 2015. 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 \$60 million, or 9.1%, since 2015 primarily because of loan-growth in commercial, financial and agricultural portfolio and an increase in incurred loss estimates during 2015 and into 2016 primarily due to the continued depressed oil and gas prices since 2014. Our consumer ALLL increased by \$2 million, or 1.4%, since 2015. Our consumer ALLL increase was primarily due to the addition of the acquired credit card and consumer direct portfolios, which were acquired at a premium. This increase was partially offset by continued improvement in credit metrics, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics since 2015 was primarily due to benefits of relatively stable economic conditions and improved delinquency rates, average credit bureau scores, and residential LTVs.

Figure 38. Allocation of the Allowance for Loan Lease Losses

December 31, dollars in millions	2016			2015			2014		
	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	Percent of Loan Type to Total Loans
Commercial, financial and agricultural	\$ 508	59.2%	46.2%	\$ 450	56.5%	52.2%	\$ 391	49.2%	48.8%
Commercial real estate:									
Commercial mortgage	144	16.8	17.6	134	16.8	13.3	148	18.7	14.0
Construction	22	2.6	2.7	25	3.2	1.7	28	3.5	1.9
Total commercial real estate loans	166	19.4	20.3	159	20.0	15.0	176	22.2	15.9
Commercial lease financing	42	4.9	5.4	47	5.9	6.7	56	7.1	7.4
Total commercial loans	716	83.5	71.9	656	82.4	73.9	623	78.5	72.1
Real estate — residential mortgage	17	2.0	6.5	18	2.3	3.7	23	2.9	3.9
Home equity loans	54	6.3	14.7	57	7.2	17.3	71	8.9	18.6
Consumer direct loans	24	2.8	2.1	20	2.5	2.7	22	2.8	2.7
Credit cards	38	4.4	1.3	32	4.0	1.3	33	4.1	1.3
Consumer indirect loans	9	1.0	3.5	13	1.6	1.1	22	2.8	1.4
Total consumer loans	142	16.5	28.1	140	17.6	26.1	171	21.5	27.9
Total loans ^(a)	\$ 858	100.0%	100.0%	\$ 796	100.0%	100.0%	\$ 794	100.0%	100.0%

	2013			2012		
	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
Commercial, financial and agricultural	\$ 362	42.7%	45.8%	\$ 327	36.8%	44.0%
Commercial real estate:						
Commercial mortgage	165	19.4	14.2	198	22.3	14.6
Construction	32	3.8	2.0	41	4.6	1.9
Total commercial real estate loans	197	23.2	16.2	239	26.9	16.5
Commercial lease financing	62	7.3	8.4	55	6.2	9.3
Total commercial loans	621	73.2	70.4	621	69.9	69.8
Real estate — residential mortgage	37	4.4	4.0	30	3.4	4.1
Home equity loans	95	11.2	19.6	130	14.6	19.4
Consumer direct loans	29	3.4	2.7	38	4.3	2.5
Credit cards	34	4.0	1.3	26	2.9	1.4
Consumer indirect loans	32	3.8	2.0	43	4.9	2.8
Total consumer loans	227	26.8	29.6	267	30.1	30.2
Total loans ^(a)	\$ 848	100.0%	100.0%	\$ 888	100.0%	100.0%

(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of \$24 million at December 31, 2016, \$28 million at December 31, 2015, \$29 million at December 31, 2014, \$39 million at December 31, 2013, and \$55 million at December 31, 2012.

Our provision for credit losses was \$266 million for 2016, compared to \$166 million for 2015. The increase in our provision is primarily related to the addition of the acquired credit card and consumer direct portfolios, which were acquired at a premium, increased charge-offs, primarily in the oil and gas portfolio in 2016 compared to 2015, and loan growth. 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 in our oil and gas loan portfolio, which represents approximately 1% of total loans at December 31, 2016, performed in-line with our expectations in 2016. 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, 2016, and reflected the estimated impact of current oil prices at that date.

Net loan charge-offs

Net loan charge-offs for 2016 totaled \$205 million, or .29% of average loans, compared to net loan charge-offs of \$142 million, or .24%, 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 \$63 million. This increase is attributable to the growth in our loan portfolio and higher charge-offs in our commercial, financial and agricultural loan portfolio over the same period.

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

Year ended December 31, <i>dollars in millions</i>	2016	2015	2014	2013	2012
Commercial, financial and agricultural	\$ 107	\$ 61	\$ 12	\$ 23	\$ 17
Real estate — commercial mortgage	(4)	(2)	2	(7)	79
Real estate — construction	7	—	(12)	(11)	19
Commercial lease financing	9	4	—	12	5
Total commercial loans	119	63	2	17	120
Real estate — residential mortgage	3	3	8	18	24
Home equity loans	16	21	32	66	118
Consumer direct loans	22	18	24	24	32
Credit cards	31	28	33	27	11
Consumer indirect loans	14	9	14	16	40
Total consumer loans	86	79	111	151	225
Total net loan charge-offs	\$ 205	\$ 142	\$ 113	\$ 168	\$ 345
Net loan charge-offs to average loans	.29%	.24%	.20%	.32%	.69%
Net loan charge-offs from discontinued operations — education lending business	\$ 17	\$ 22	\$ 31	\$ 37	\$ 58

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

Figure 40. Summary of Loan and Lease Loss Experience from Continuing Operations

Year ended December 31, dollars in millions	2016	2015	2014	2013	2012
Average loans outstanding	\$ 71,148	\$ 58,594	\$ 55,679	\$ 53,054	\$ 50,362
Allowance for loan and lease losses at beginning of period	\$ 796	\$ 794	\$ 848	\$ 888	\$ 1,004
Loans charged off:					
Commercial, financial and agricultural	118	77	45	62	80
Real estate — commercial mortgage	5	4	6	20	102
Real estate — construction	9	1	5	3	24
Total commercial real estate loans ^(a)	14	5	11	23	126
Commercial lease financing	12	11	10	27	27
Total commercial loans ^(b)	144	93	66	112	233
Real estate — residential mortgage	4	6	10	20	27
Home equity loans	30	32	46	82	134
Consumer direct loans	27	24	30	31	38
Credit cards	35	30	34	30	11
Consumer indirect loans	21	18	25	33	65
Total consumer loans	117	110	145	196	275
Total loans charged off	261	203	211	308	508
Recoveries:					
Commercial, financial and agricultural	11	16	33	39	63
Real estate — commercial mortgage	9	6	4	27	23
Real estate — construction	2	1	17	14	5
Total commercial real estate loans ^(a)	11	7	21	41	28
Commercial lease financing	3	7	10	15	22
Total commercial loans ^(b)	25	30	64	95	113
Real estate — residential mortgage	1	3	2	2	3
Home equity loans	14	11	14	16	16
Consumer direct loans	5	6	6	7	6
Credit cards	4	2	1	3	—
Consumer indirect loans	7	9	11	17	25
Total consumer loans	31	31	34	45	50
Total recoveries	56	61	98	140	163
Net loan charge-offs	(205)	(142)	(113)	(168)	(345)
Provision (credit) for loan and lease losses	267	145	59	130	229
Foreign currency translation adjustment	—	(1)	—	(2)	—
Allowance for loan and lease losses at end of year	\$ 858	\$ 796	\$ 794	\$ 848	\$ 888
Liability for credit losses on lending-related commitments at beginning of the year	\$ 56	\$ 35	\$ 37	\$ 29	\$ 45
Provision (credit) for losses on lending-related commitments	(1)	21	(2)	8	(16)
Liability for credit losses on lending-related commitments at end of the year ^(c)	\$ 55	\$ 56	\$ 35	\$ 37	\$ 29
Total allowance for credit losses at end of the year	\$ 913	\$ 852	\$ 829	\$ 885	\$ 917
Net loan charge-offs to average total loans	.29%	.24%	.20%	.32%	.69%
Allowance for loan and lease losses to period-end loans	1.00	1.33	1.38	1.56	1.68
Allowance for credit losses to period-end loans	1.06	1.42	1.44	1.63	1.74
Allowance for loan and lease losses to nonperforming loans	137.3	205.7	190.0	166.9	131.8
Allowance for credit losses to nonperforming loans	146.1	220.2	198.3	174.2	136.1
Discontinued operations — education lending business:					
Loans charged off	\$ 28	\$ 35	\$ 45	\$ 55	\$ 75
Recoveries	11	13	14	18	17
Net loan charge-offs	\$ (17)	\$ (22)	\$ (31)	\$ (37)	\$ (58)

- (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 18 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 \$676 million at December 31, 2016, and represented .79% of portfolio loans, OREO and other nonperforming assets, compared to \$403 million, or .67%, at December 31, 2015. 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, dollars in millions	2016	2015	2014	2013	2012
Commercial, financial and agricultural	\$ 297	\$ 82	\$ 59	\$ 77	\$ 99
Real estate — commercial mortgage	26	19	34	37	120
Real estate — construction	3	9	13	14	56
Total commercial real estate loans ^(a)	29	28	47	51	176
Commercial lease financing	8	13	18	19	16
Total commercial loans ^(b)	334	123	124	147	291
Real estate — residential mortgage	56	64	79	107	103
Home equity loans	223	190	195	220	231
Consumer direct loans	6	2	2	3	2
Credit cards	2	2	2	4	11
Consumer indirect loans	4	6	16	27	36
Total consumer loans	291	264	294	361	383
Total nonperforming loans ^(c)	625	387	418	508	674
Nonperforming loans held for sale	—	—	—	1	25
OREO	51	14	18	15	22
Other nonperforming assets	—	2	—	7	14
Total nonperforming assets ^(c)	\$ 676	\$ 403	\$ 436	\$ 531	\$ 735
Accruing loans past due 90 days or more	\$ 87	\$ 72	\$ 96	\$ 71	\$ 78
Accruing loans past due 30 through 89 days	404	208	235	318	424
Restructured loans — accruing and nonaccruing ^(d)	280	280	270	338	320
Restructured loans included in nonperforming loans ^(d)	141	159	157	214	249
Nonperforming assets from discontinued operations — education lending business	5	7	11	25	20
Nonperforming loans to period-end portfolio loans ^(c)	.73%	.65%	.73%	.93%	1.28%
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets ^(c)	.79	.67	.76	.97	1.39

- (a) See Figure 18 and the accompanying discussion in the “Loans and loans held for sale” section for more information related to our commercial, real estate 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 loan portfolio.
- (c) Nonperforming loan balances exclude \$865 million, \$11 million, \$13 million, \$16 million and \$23 million of PCI loans at December 31, 2016, 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.

As shown in Figure 41, nonperforming assets increased during 2016. Most of the increase came from nonperforming loans in our commercial, financial and agricultural loan portfolio, primarily due to credit migration in the oil and gas portfolio.

Figure 42 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, 2016, and December 31, 2015.

Figure 42. Summary of Changes in Nonperforming Loans from Continuing Operations

<i>in millions</i>	2016	2016 Quarters				2015
		Fourth	Third	Second	First	
Balance at beginning of period	\$ 387	\$ 723	\$ 619	\$ 676	\$ 387	\$ 418
Loans placed on nonaccrual status	778	170	78	124	406	377
Nonperforming loans acquired from First Niagara	119	(31)	150	—	—	—
Charge-offs	(258)	(81)	(53)	(64)	(60)	(203)
Loans sold	(20)	(9)	—	—	(11)	(2)
Payments	(145)	(30)	(32)	(75)	(8)	(71)
Transfers to OREO	(36)	(21)	(5)	(6)	(4)	(20)
Transfers to other nonperforming assets	—	—	—	—	—	(1)
Loans returned to accrual status	(200)	(96)	(34)	(36)	(34)	(111)
Balance at end of period ^(a)	\$ 625	\$ 625	\$ 723	\$ 619	\$ 676	\$ 387

(a) Nonperforming loan balances exclude \$865 million and \$11 million of PCI loans at December 31, 2016, and December 31, 2015, respectively.

Figure 43 shows the factors that contributed to the change in our OREO during 2016 and 2015.

Figure 43. Summary of Changes in Other Real Estate Owned, Net of Allowance, from Continuing Operations

<i>in millions</i>	2016	2016 Quarters				2015
		Fourth	Third	Second	First	
Balance at beginning of period	\$ 14	\$ 35	\$ 15	\$ 14	\$ 14	\$ 18
Properties acquired — First Niagara	19	—	19	—	—	—
Properties acquired — nonperforming loans	36	21	5	6	4	20
Valuation adjustments	(7)	(2)	(2)	(2)	(1)	(6)
Properties sold	(11)	(3)	(2)	(3)	(3)	(18)
Balance at end of period	\$ 51	\$ 51	\$ 35	\$ 15	\$ 14	\$ 14

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.

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 44 shows our financial performance for each of the past eight quarters. Highlights of our results for the fourth quarter of 2016 are summarized below.

Earnings

Our fourth quarter net income from continuing operations attributable to Key common shareholders was \$213 million, or \$.20 per common share, compared to \$224 million, or \$.27 per common share, for the fourth quarter of 2015.

On an annualized basis, our return on average total assets from continuing operations for the fourth quarter of 2016 was .69%, compared to .97% for the fourth quarter of 2015. The annualized return on average common equity from continuing operations was 7.88% for the fourth quarter of 2016, compared to 9.50% for the year-ago quarter.

Net interest income

Fourth quarter 2016 net interest income included \$92 million of purchase accounting accretion related to the acquisition of First Niagara, including \$34 million related to refinement of third quarter 2016 purchase accounting estimates.

Our taxable-equivalent net interest income was \$948 million for the fourth quarter of 2016, and the net interest margin was 3.12%. These results compare to taxable-equivalent net interest income of \$610 million and a net interest margin of 2.87% for the fourth quarter of 2015. The \$338 million increase in net interest income and 25 basis point increase in net interest margin reflects the benefit from the acquisition of First Niagara and ongoing business activity.

Noninterest income

Our noninterest income was \$618 million for the fourth quarter of 2016, compared to \$485 million for the year-ago quarter. The increase was driven by the acquisition of First Niagara, as well as continued positive momentum in our core businesses. Investment banking and debt placement fees, cards and payments income, service charges on deposit accounts, and other income all contributed to the growth.

Noninterest expense

Our noninterest expense was \$1.2 billion for the fourth quarter of 2016. During the quarter, we incurred merger-related costs of \$207 million and a pension settlement charge of \$18 million. The merger-related charges were primarily made up of \$80 million in personnel expense related to systems conversions, as well as fully-dedicated personnel for merger and integration efforts. The remaining \$127 million of merger-related charges were nonpersonnel expense, largely recognized in net occupancy, computer processing, business services and professional fees, and marketing expense.

Excluding merger-related charges, noninterest expense was \$283 million higher than the fourth quarter of last year. The increase from the prior year, reflected in both personnel and nonpersonnel expense, was largely driven by the acquisition of First Niagara, as well as higher incentive and stock-based compensation. Additionally, we incurred \$14 million in an increased pension settlement charge, and intangible asset amortization increased \$18 million.

Provision for credit losses

Our provision for credit losses was \$66 million for the fourth quarter of 2016, compared to \$45 million for the fourth quarter of 2015. Our ALLL was \$858 million, or 1.00% of total period-end loans, at December 31, 2016, compared to \$796 million, or 1.33%, at December 31, 2015.

Net loan charge-offs for the fourth quarter of 2016 totaled \$72 million, or .34% of average loans, compared to \$37 million, or .25%, for the same period last year.

Income taxes

For the fourth quarter of 2016, we recorded a tax provision from continuing operations of \$38 million, compared to a tax provision of \$73 million for the fourth quarter of 2015. The effective tax rate for the fourth quarter of 2016 was 14.1%, compared to 23.9% for the same quarter one year ago, due to lower pretax income resulting from merger-related charges, increased energy tax credits associated with leasing activities and a reduction of valuation allowances related to capital loss carryforwards.

Figure 44. Selected Quarterly Financial Data

dollars in millions, except per share amounts	2016 Quarters				2015 Quarters			
	Fourth	Third	Second	First	Fourth	Third	Second	First
FOR THE PERIOD								
Interest income	\$ 1,062	\$ 890	\$ 684	\$ 683	\$ 673	\$ 661	\$ 652	\$ 636
Interest expense	124	110	87	79	71	70	68	65
Net interest income	938	780	597	604	602	591	584	571
Provision for credit losses	66	59	52	89	45	45	41	35
Noninterest income	618	549	473	431	485	470	488	437
Noninterest expense	1,220	1,082	751	703	736	724	711	669
Income (loss) from continuing operations before income taxes	270	188	267	243	306	292	320	304
Income (loss) from continuing operations attributable to Key	233	171	199	187	230	222	235	228
Income (loss) from discontinued operations, net of taxes ^(a)	(4)	1	3	1	(4)	(3)	3	5
Net income (loss) attributable to Key	229	172	202	188	226	219	238	233
Income (loss) from continuing operations attributable to Key common shareholders	213	165	193	182	224	216	230	222
Income (loss) from discontinued operations, net of taxes ^(a)	(4)	1	3	1	(4)	(3)	3	5
Net income (loss) attributable to Key common shareholders	209	166	196	183	220	213	233	227
PER COMMON SHARE								
Income (loss) from continuing operations attributable to Key common shareholders	\$.20	\$.17	\$.23	\$.22	\$.27	\$.26	\$.27	\$.26
Income (loss) from discontinued operations, net of taxes ^(a)	—	—	—	—	(.01)	—	—	.01
Net income (loss) attributable to Key common shareholders ^(b)	.20	.17	.23	.22	.27	.26	.28	.27
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	\$.20	\$.16	\$.23	\$.22	\$.27	\$.26	\$.27	\$.26
Income (loss) from discontinued operations, net of taxes — assuming dilution ^(a)	—	—	—	—	(.01)	—	—	.01
Net income (loss) attributable to Key common shareholders — assuming dilution ^(b)	.19	.17	.23	.22	.26	.25	.27	.26
Cash dividends paid	.085	.085	.085	.075	.075	.075	.075	.065
Book value at period end	12.58	12.78	13.08	12.79	12.51	12.47	12.21	12.12
Tangible book value at period end	9.99	10.14	11.81	11.52	11.22	11.17	10.92	10.84
Market price:								
High	18.62	12.64	13.08	13.37	14.01	15.46	15.70	14.74
Low	12.00	10.38	10.21	9.88	12.37	12.65	13.90	12.04
Close	18.27	12.17	11.05	11.04	13.19	13.01	15.02	14.16
Weighted-average common shares outstanding (000)	1,067,771	982,080	831,899	827,381	828,206	831,430	839,454	848,580
Weighted-average common shares and potential common shares outstanding (000) ^(c)	1,083,717	994,660	838,496	835,060	835,939	838,880	846,312	857,122
AT PERIOD END								
Loans	\$ 86,038	\$ 85,528	\$ 62,098	\$ 60,438	\$ 59,876	\$ 60,085	\$ 58,264	\$ 57,953
Earning assets	121,966	121,089	90,065	87,273	83,780	83,779	82,964	82,624
Total assets	136,453	135,805	101,150	98,402	95,131	95,420	94,604	94,204
Deposits	104,087	104,185	75,325	73,382	71,046	71,073	70,669	71,622
Long-term debt	12,384	12,622	11,388	10,760	10,184	10,308	10,265	8,711
Key common shareholders' equity	13,575	13,831	11,023	10,776	10,456	10,415	10,300	10,313
Key shareholders' equity	15,240	14,996	11,313	11,066	10,746	10,705	10,590	10,603
PERFORMANCE RATIOS — FROM CONTINUING OPERATIONS								
Return on average total assets	.69%	.55%	.82%	.80%	.97%	.95%	1.03%	1.03%
Return on average common equity	6.22	5.09	7.15	6.86	8.51	8.30	8.96	8.76
Return on average tangible common equity ^(d)	7.88	6.16	7.94	7.64	9.50	9.27	10.01	9.80
Net interest margin (TE)	3.12	2.85	2.76	2.89	2.87	2.87	2.88	2.91
Cash efficiency ratio ^(d)	76.2	80.0	69.0	66.6	66.4	66.9	65.1	65.1
PERFORMANCE RATIOS — FROM CONSOLIDATED OPERATIONS								
Return on average total assets	.67%	.55%	.82%	.79%	.93%	.92%	1.02%	1.03%
Return on average common equity	6.10	5.12	7.26	6.90	8.36	8.19	9.07	8.96
Return on average tangible common equity ^(d)	7.73	6.20	8.06	7.68	9.33	9.14	10.14	10.02
Net interest margin (TE)	3.09	2.83	2.74	2.83	2.84	2.84	2.85	2.88
Loan to deposit ^(e)	85.2	84.7	85.3	85.7	87.8	89.3	87.3	86.9
CAPITAL RATIOS AT PERIOD END								
Key shareholders' equity to assets	11.17%	11.04%	11.18%	11.25%	11.30%	11.22%	11.19%	11.26%
Key common shareholders' equity to assets	9.95	10.18	10.90	10.95	10.99	10.91	10.89	10.95
Tangible common equity to tangible assets ^(d)	8.09	8.27	9.95	9.97	9.98	9.90	9.86	9.92
Common Equity Tier 1 ^(d)	9.54	9.56	11.10	11.07	10.94	10.47	10.71	10.64
Tier 1 risk-based capital	10.89	10.53	11.41	11.38	11.35	10.87	11.11	11.04
Total risk-based capital	12.85	12.63	13.63	13.12	12.97	12.47	12.66	12.79
Leverage	9.90	10.22	10.59	10.73	10.72	10.68	10.74	10.91
TRUST ASSETS								
Assets under management	\$ 36,592	\$ 36,752	\$ 34,535	\$ 34,107	\$ 33,983	\$ 35,158	\$ 38,399	\$ 39,281
OTHER DATA								
Average full-time-equivalent employees	18,849	17,079	13,419	13,403	13,359	13,555	13,455	13,591
Branches	1,217	1,322	949	961	966	972	989	992

- (a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 14 ("Acquisition, Divestiture, 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 45 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,” 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 divided by period-end consolidated total deposits (excluding deposits in foreign office).

Figure 45. Selected Quarterly GAAP to Non-GAAP Reconciliations

dollars in millions	Three months ended							
	12/31/2016	9/30/2016	6/30/2016	3/31/2016	12/31/2015	9/30/2015	6/30/2015	3/31/2015
Tangible common equity to tangible assets at period end								
Key shareholders' equity (GAAP)	\$ 15,240	\$ 14,996	\$ 11,313	\$ 11,066	\$ 10,746	\$ 10,705	\$ 10,590	\$ 10,603
Less: Intangible assets ^(a)	2,788	2,855	1,074	1,077	1,080	1,084	1,085	1,088
Preferred Stock ^(b)	1,640	1,150	281	281	281	281	281	281
Tangible common equity (non-GAAP)	\$ 10,812	\$ 10,991	\$ 9,958	\$ 9,708	\$ 9,385	\$ 9,340	\$ 9,224	\$ 9,234
Total assets (GAAP)	\$ 136,453	\$ 135,805	\$ 101,150	\$ 98,402	\$ 95,131	\$ 95,420	\$ 94,604	\$ 94,204
Less: Intangible assets ^(a)	2,788	2,855	1,074	1,077	1,080	1,084	1,085	1,088
Tangible assets (non-GAAP)	\$ 133,665	\$ 132,950	\$ 100,076	\$ 97,325	\$ 94,051	\$ 94,336	\$ 93,519	\$ 93,116
Tangible common equity to tangible assets ratio (non-GAAP)	8.09%	8.27%	9.95%	9.97%	9.98%	9.90%	9.86%	9.92%
Common Equity Tier 1 at period end								
Key shareholders' equity (GAAP)	\$ 15,240	\$ 14,996	\$ 11,313	\$ 11,066	\$ 10,746	\$ 10,705	\$ 10,590	\$ 10,603
Less: Preferred Stock ^(b)	1,640	1,150	281	281	281	281	281	281
Common Equity Tier 1 capital before adjustments and deductions	13,600	13,846	11,032	10,785	10,465	10,424	10,309	10,322
Less: Goodwill, net of deferred taxes	2,405	2,450	1,031	1,033	1,034	1,036	1,034	1,036
Intangible assets, net of deferred taxes	155	216	30	35	26	29	33	36
Deferred tax assets	4	6	1	1	1	1	1	1
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(185)	101	129	70	(58)	54	—	52
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(52)	39	77	46	(20)	21	(20)	(8)
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	(339)	(359)	(362)	(365)	(365)	(385)	(361)	(364)
Total Common Equity Tier 1 capital	\$ 11,612	\$ 11,393	\$ 10,126	\$ 9,965	\$ 9,847	\$ 9,668	\$ 9,622	\$ 9,569
Net risk-weighted assets (regulatory)	\$ 121,671	\$ 119,120	\$ 91,195	\$ 90,014	\$ 89,980	\$ 92,307	\$ 89,851	\$ 89,967
Common Equity Tier 1 ratio (non-GAAP)	9.54%	9.56%	11.10%	11.07%	10.94%	10.47%	10.71%	10.64%
Average tangible common equity								
Average Key shareholders' equity (GAAP)	\$ 14,901	\$ 13,552	\$ 11,147	\$ 10,953	\$ 10,731	\$ 10,614	\$ 10,590	\$ 10,570
Less: Intangible assets (average) ^(c)	2,874	2,255	1,076	1,079	1,082	1,083	1,086	1,089
Series A Preferred Stock (average)	1,274	648	290	290	290	290	290	290
Average tangible common equity (non-GAAP)	\$ 10,753	\$ 10,649	\$ 9,781	\$ 9,584	\$ 9,359	\$ 9,241	\$ 9,214	\$ 9,191
Return on average tangible common equity from continuing operations								
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$ 213	\$ 165	\$ 193	\$ 182	\$ 224	\$ 216	\$ 230	\$ 222
Average tangible common equity (non-GAAP)	10,753	10,649	9,781	9,584	9,359	9,241	9,214	9,191
Return on average tangible common equity from continuing operations (non-GAAP)	7.88%	6.16%	7.94%	7.64%	9.50%	9.27%	10.01%	9.80%
Return on average tangible common equity consolidated								
Net income (loss) attributable to Key common shareholders (GAAP)	\$ 209	\$ 166	\$ 196	\$ 183	\$ 220	\$ 213	\$ 233	\$ 227
Average tangible common equity (non-GAAP)	10,753	10,649	9,781	9,584	9,359	9,241	9,214	9,191
Return on average tangible common equity consolidated (non-GAAP)	7.73%	6.20%	8.06%	7.68%	9.33%	9.14%	10.14%	10.02%
Return on average tangible common equity from continuing operations excluding merger-related charges								
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$ 213	\$ 165	\$ 193	\$ 182	\$ 224	\$ 216	\$ 230	\$ 222
Merger-related charges, after tax	124	132	28	15	4	—	—	—
Net income (loss) from continuing operations attributable to Key common shareholders excluding merger-related charges (non-GAAP)	\$ 337	\$ 297	\$ 221	\$ 197	\$ 228	\$ 216	\$ 230	\$ 222
Average tangible common equity (non-GAAP)	\$ 10,753	\$ 10,649	\$ 9,781	\$ 9,584	\$ 9,359	\$ 9,241	\$ 9,214	\$ 9,191
Return on average tangible common equity from continuing operations excluding merger-related charges (non-GAAP)	12.47%	11.10%	9.09%	8.27%	9.67%	9.27%	10.01%	9.80%
Cash efficiency ratio								
Noninterest expense (GAAP)	\$ 1,220	\$ 1,082	\$ 751	\$ 703	\$ 736	\$ 724	\$ 711	\$ 669
Less: Intangible asset amortization (GAAP)	27	13	7	8	9	9	9	9
Adjusted noninterest expense (non-GAAP)	1,193	1,069	744	695	727	715	702	660
Less: Merger-related charges	207	189	45	24	6	—	—	—
Adjusted noninterest expense excluding merger-related charges (non-GAAP)	\$ 986	\$ 880	\$ 699	\$ 671	\$ 721	\$ 715	\$ 702	\$ 660
Net interest income (GAAP)	\$ 938	\$ 780	\$ 597	\$ 604	\$ 602	\$ 591	\$ 584	\$ 571
Plus: Taxable-equivalent adjustment	10	8	8	8	8	7	7	6
Noninterest income (GAAP)	618	549	473	431	485	470	488	437
Total taxable-equivalent revenue (non-GAAP)	1,566	1,337	1,078	1,043	1,095	1,068	1,079	1,014
Plus: Merger-related charges	(9)	18	—	—	—	—	—	—
Adjusted total taxable equivalent revenue excluding merger-related charges (non-GAAP)	\$ 1,557	\$ 1,355	\$ 1,078	\$ 1,043	\$ 1,095	\$ 1,068	\$ 1,079	\$ 1,014
Cash efficiency ratio (non-GAAP)	76.2%	80.0%	69.0%	66.6%	66.4%	66.9%	65.1%	65.1%
Cash efficiency ratio excluding merger-related charges (non-GAAP)	63.3%	64.9%	64.8%	64.3%	65.8%	66.9%	65.1%	65.1%

- (a) For the three months ended December 31, 2016, September 30, 2016, June 30, 2016, and March 31, 2016, intangible assets exclude \$42 million, \$51 million, \$36 million, and \$40 million, respectively, of period-end purchased credit card relationships. 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 relationships.
- (b) Net of capital surplus.

- (c) For the three months ended December 31, 2016, September 30, 2016, June 30, 2016, and March 31, 2016, average intangible assets exclude \$46 million, \$47 million, \$38 million, and \$42 million, respectively, of average purchased credit card relationships. 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 relationships.

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 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 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, 2016, would indicate the need for a \$24 million increase in the allowance. The same increase in estimated losses for the commercial loan portfolio would result in a \$62 million increase in the allowance. Such adjustments to the ALLL can materially affect financial results. Following the above examples, a \$24 million increase in the consumer loan portfolio allowance would have reduced our earnings on an after-tax basis by approximately \$15 million, or \$.02 per common share; a \$62 million increase in the commercial loan portfolio allowance would have reduced earnings on an after-tax basis by approximately \$39 million, or \$.04 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.

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 judgments, assumptions and estimates regarding credit quality, liquidity, interest rates and other relevant market available inputs. We describe our 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 7 (“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, 2016, \$22.1 billion, or 16%, 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, 2016, \$1.5 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, 2016, \$22 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, 2016, there were no liabilities measured at fair value on a nonrecurring basis.

During 2016, we elected the fair value option for our real estate — residential mortgage loans held for sale. 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 \$185 million at December 31, 2016. A 10% positive or negative variance in that fair value would have increased or decreased our 2016 earnings by approximately \$19 million (\$12 million after tax, or \$.01 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 chose to utilize this qualitative assessment in our annual goodwill impairment testing in the fourth quarter of 2016 and concluded that it was not more likely than not that the fair values of our reporting units were less than their respective carrying values. Our reporting units for purposes of the analysis are our two major business segments: Key Community Bank and Key Corporate Bank.

If we chose the quantitative assessment, we would perform the two step goodwill impairment test. 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.

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 Pacific Crest business combination. The acquisition of First Niagara during the third quarter of 2016 resulted in a \$1.4 billion increase in goodwill. As a result of the acquisition, \$1.1 billion of goodwill was allocated to Key Community Bank and \$277 million of goodwill was allocated to Key Corporate Bank. Additional information is provided in Note 11 ("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 17 ("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, 2016, is provided in Note 8 ("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. Draft accounting guidance has been exposed that 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 9 ("Derivatives and Hedging Activities").

Contingent liabilities, guarantees and income taxes

Note 21 ("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 21 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, 2016.

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.

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 13 (“Income Taxes”).

During 2016, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

European Sovereign and Non-Sovereign Debt Exposures

Our total European sovereign and non-sovereign debt exposure is presented in Figure 46.

Figure 46. European Sovereign and Non-Sovereign Debt Exposures

December 31, 2016 <i>in millions</i>	Short- and Long- Term Commercial Total ^(a)	Foreign Exchange and Derivatives with Collateral ^(b)	Net Exposure
France:			
Sovereigns	—	—	—
Non-sovereign financial institutions	— \$	(1) \$	(1)
Non-sovereign non-financial institutions	\$ 11	—	11
Total	11	(1)	10
Germany:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	(1)	(1)
Non-sovereign non-financial institutions	179	—	179
Total	179	(1)	178
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	—	—	—
Total	—	—	—
Italy:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	—	—
Non-sovereign non-financial institutions	20	—	20
Total	20	—	20
Netherlands:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	—	—
Non-sovereign non-financial institutions	7	—	7
Total	7	—	7
Portugal:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	—	—
Non-sovereign non-financial institutions	—	—	—
Total	—	—	—
Spain:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	—	—
Non-sovereign non-financial institutions	11	—	11
Total	11	—	11
Switzerland:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	(4)	(4)
Non-sovereign non-financial institutions	59	—	59
Total	59	(4)	55
United Kingdom:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	206	206
Non-sovereign non-financial institutions	68	—	68
Total	68	206	274
Other Europe: ^(c)			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	—	—
Non-sovereign non-financial institutions	62	—	62
Total	62	—	62
Total Europe:			
Sovereigns	—	—	—
Non-sovereign financial institutions	—	200	200
Non-sovereign non-financial institutions	417	—	417
Total	\$ 417	\$ 200	\$ 617

(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.

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 71 is incorporated herein by reference.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our financial performance for each of the past eight quarters is summarized in Figure 44 contained in the “Fourth Quarter Results” section in the MD&A.

	<u>Page Number</u>
Management’s Annual Report on Internal Control over Financial Reporting	98
Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting	99
Report of Independent Registered Public Accounting Firm	100
Consolidated Balance Sheets	101
Consolidated Statements of Income	102
Consolidated Statements of Comprehensive Income	103
Consolidated Statements of Changes in Equity	104
Consolidated Statements of Cash Flows	105
Notes to Consolidated Financial Statements	106
Note 1. Summary of Significant Accounting Policies	106
Note 2. Business Combination	121
Note 3. Earnings Per Common Share	124
Note 4. Restrictions on Cash, Dividends and Lending Activities	125
Note 5. Loans and Loans Held for Sale	125
Note 6. Asset Quality	126
Note 7. Fair Value Measurements	140
Note 8. Securities	155
Note 9. Derivatives and Hedging Activities	157
Note 10. Mortgage Servicing Assets	164
Note 11. Goodwill and Other Intangible Assets	166
Note 12. Variable Interest Entities	168
Note 13. Income Taxes	170
Note 14. Acquisitions and Discontinued Operations	172
Note 15. Securities Financing Activities	177
Note 16. Stock-Based Compensation	178
Note 17. Employee Benefits	181
Note 18. Short-Term Borrowings	190
Note 19. Long-Term Debt	191
Note 20. Trust Preferred Securities Issued by Unconsolidated Subsidiaries	192
Note 21. Commitments, Contingent Liabilities and Guarantees	193
Note 22. Accumulated Other Comprehensive Income	197
Note 23. Shareholders’ Equity	198
Note 24. Line of Business Results	200
Note 25. Condensed Financial Information of the Parent Company	204
Note 26. Subsequent Events	205

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.

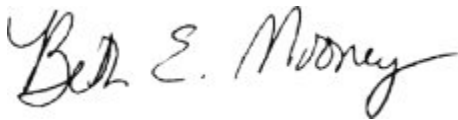
We are responsible for establishing and maintaining a system of internal control that is designed to protect our assets and the integrity of our financial reporting. This corporate-wide system of controls includes self-monitoring mechanisms and written policies and procedures, prescribes proper delegation 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, 2016. Our independent registered public accounting firm has issued an attestation report, dated February 28, 2017, 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

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, 2016, 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.

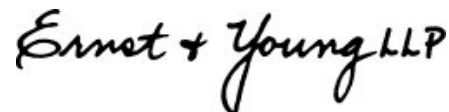
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal 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, 2016, 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, 2016 and 2015, 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, 2016 and our report dated February 28, 2017 expressed an unqualified opinion thereon.

Cleveland, Ohio
February 28, 2017

The signature of Ernst & Young LLP is written in a stylized, cursive script. The words "Ernst & Young" are written in a larger, more prominent font, with "LLP" in a smaller font to the right. The signature is written in black ink.

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of KeyCorp

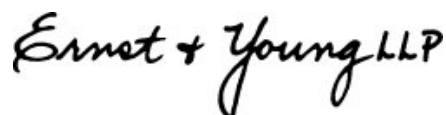
We have audited the accompanying consolidated balance sheets of KeyCorp as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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, 2016, 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 28, 2017 expressed an unqualified opinion thereon.

Cleveland, Ohio
February 28, 2017

The signature is written in a cursive, handwritten style. It reads "Ernst & Young LLP". The "E" is large and loops around the "r". The "Y" is also large and loops around the "o". The "LLP" is written in a more straightforward, slightly cursive hand.

Consolidated Balance Sheets

December 31,

in millions, except per share data

	2016	2015
ASSETS		
Cash and due from banks	\$ 677	\$ 607
Short-term investments	2,775	2,707
Trading account assets	867	788
Securities available for sale	20,212	14,218
Held-to-maturity securities (fair value: \$10,007 and \$4,848)	10,232	4,897
Other investments	738	655
Loans, net of unearned income of \$826 and \$646	86,038	59,876
Allowance for loan and lease losses	(858)	(796)
Net loans	85,180	59,080
Loans held for sale ^(a)	1,104	639
Premises and equipment	978	779
Operating lease assets	540	340
Goodwill	2,446	1,060
Other intangible assets	384	65
Corporate-owned life insurance	4,068	3,541
Derivative assets	803	619
Accrued income and other assets	3,864	3,290
Discontinued assets (including \$3 and \$4 of portfolio loans at fair value, see Note 14)	1,585	1,846
Total assets	<u>\$ 136,453</u>	<u>\$ 95,131</u>
LIABILITIES		
Deposits in domestic offices:		
NOW and money market deposit accounts	\$ 54,590	\$ 37,089
Savings deposits	6,491	2,341
Certificates of deposit (\$100,000 or more)	5,483	2,392
Other time deposits	4,698	3,127
Total interest-bearing deposits	71,262	44,949
Noninterest-bearing deposits	32,825	26,097
Total deposits	104,087	71,046
Federal funds purchased and securities sold under repurchase agreements	1,502	372
Bank notes and other short-term borrowings	808	533
Derivative liabilities	636	632
Accrued expense and other liabilities	1,796	1,605
Long-term debt	12,384	10,184
Total liabilities	121,213	84,372
EQUITY		
Preferred stock	1,665	290
Common shares, \$1 par value; authorized 1,400,000,000 shares; issued 1,256,702,081 and 1,016,969,905 shares	1,257	1,017
Capital surplus	6,385	3,922
Retained earnings	9,378	8,922
Treasury stock, at cost (177,388,429 and 181,218,648 shares)	(2,904)	(3,000)
Accumulated other comprehensive income (loss)	(541)	(405)
Key shareholders' equity	15,240	10,746
Noncontrolling interests	—	13
Total equity	15,240	10,759
Total liabilities and equity	<u>\$ 136,453</u>	<u>\$ 95,131</u>

(a) Total loans held for sale include Real estate — residential mortgage loans held for sale at fair value of \$62 million at December 31, 2016.
See notes to Consolidated Financial Statements

Consolidated Statements of Income

Year ended December 31,

dollars in millions, except per share amounts

	2016	2015	2014
INTEREST INCOME			
Loans	\$ 2,773	\$ 2,149	\$ 2,110
Loans held for sale	34	37	21
Securities available for sale	329	293	277
Held-to-maturity securities	122	96	93
Trading account assets	23	21	25
Short-term investments	22	8	6
Other investments	16	18	22
Total interest income	3,319	2,622	2,554
INTEREST EXPENSE			
Deposits	171	105	117
Federal funds purchased and securities sold under repurchase agreements	1	—	2
Bank notes and other short-term borrowings	10	9	9
Long-term debt	218	160	133
Total interest expense	400	274	261
NET INTEREST INCOME	2,919	2,348	2,293
Provision for credit losses	266	166	57
Net interest income after provision for credit losses	2,653	2,182	2,236
NONINTEREST INCOME			
Trust and investment services income	464	433	403
Investment banking and debt placement fees	482	445	397
Service charges on deposit accounts	302	256	261
Operating lease income and other leasing gains	62	73	96
Corporate services income	215	198	178
Cards and payments income	233	183	166
Corporate-owned life insurance income	125	127	118
Consumer mortgage income	17	12	10
Mortgage servicing fees	57	48	46
Net gains (losses) from principal investing	20	51	78
Other income ^(a)	94	54	44
Total noninterest income	2,071	1,880	1,797
NONINTEREST EXPENSE			
Personnel	2,073	1,652	1,591
Net occupancy	305	255	261
Computer processing	255	164	158
Business services and professional fees	235	159	156
Equipment	98	88	96
Operating lease expense	59	47	42
Marketing	101	57	49
FDIC assessment	61	32	30
Intangible asset amortization	55	36	39
OREO expense, net	9	6	5
Other expense	505	344	334
Total noninterest expense	3,756	2,840	2,761
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	968	1,222	1,272
Income taxes	179	303	326
INCOME (LOSS) FROM CONTINUING OPERATIONS	789	919	946
Income (loss) from discontinued operations, net of taxes of \$1, \$1, and (\$23) (see Note 14)	1	1	(39)
NET INCOME (LOSS)	790	920	907
Less: Net income (loss) attributable to noncontrolling interests	(1)	4	7
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	<u>\$ 791</u>	<u>\$ 916</u>	<u>\$ 900</u>
Income (loss) from continuing operations attributable to Key common shareholders	\$ 753	\$ 892	\$ 917
Net income (loss) attributable to Key common shareholders	754	893	878
Per common share:			
Income (loss) from continuing operations attributable to Key common shareholders	.81	1.06	1.05
Income (loss) from discontinued operations, net of taxes	—	—	(.04)
Net income (loss) attributable to Key common shareholders ^(b)	.81	1.06	1.01
Per common share — assuming dilution:			
Income (loss) from continuing operations attributable to Key common shareholders	.80	1.05	1.04
Income (loss) from discontinued operations, net of taxes	—	—	(.04)
Net income (loss) attributable to Key common shareholders ^(b)	.80	1.05	.99
Cash dividends declared per common share	.33	.29	.25
Weighted-average common shares outstanding (000)	927,816	836,846	871,464
Effect of convertible preferred stock	—	—	—
Effect of common share options and other stock awards	10,720	7,643	6,735
Weighted-average common shares and potential common shares outstanding (000) ^(c)	938,536	844,489	878,199

(a) Net securities gains (losses) totaled less than \$1 million for the years ended December 31, 2016, 2015, and 2014. For 2016, 2015, and 2014, 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.

Consolidated Statements of Comprehensive Income

Year ended December 31,

in millions

	2016	2015	2014
Net income (loss)	\$ 790	\$ 920	\$ 907
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$76), (\$32), and \$35	(127)	(54)	59
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$19), \$17, and \$2	(34)	28	3
Foreign currency translation adjustments, net of income taxes of (\$1), (\$14), and (\$8)	(1)	(24)	(20)
Net pension and postretirement benefit costs, net of income taxes of \$19, (\$2), and (\$27)	26	1	(46)
Total other comprehensive income (loss), net of tax	(136)	(49)	(4)
Comprehensive income (loss)	654	871	903
Less: Comprehensive income attributable to noncontrolling interests	(1)	4	7
Comprehensive income (loss) attributable to Key	\$ 655	\$ 867	\$ 896

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

	Key Shareholders' Equity								Noncontrolling Interests
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	
<i>dollars in millions, except per share amounts</i>									
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
Net income (loss)						791			(1)
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$76)								(127)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$19)								(34)	
Foreign currency translation adjustments, net of income taxes of (\$1)								(1)	
Net pension and postretirement benefit costs, net of income taxes of \$19								26	
Deferred compensation					(4)				
Cash dividends declared on common shares (\$.33 per share)						(298)			
Cash dividends declared on Noncumulative Series A Preferred Stock (\$7.75 per share)						(22)			
Cash dividends declared on Noncumulative Series C Preferred Stock (\$.539063 per share)						(8)			
Cash dividends declared on Noncumulative Series D Preferred Stock (\$13.33 per depositary share)						(7)			
Common shares issued for the acquisition of FNFG		239,732		240	2,591				
Common shares repurchased		(10,502)					(140)		
Issuance of Preferred Stock	14,521		1,375		(16)				
Common shares reissued (returned) for stock options and other employee benefit plans		14,333			(108)		236		
Net contribution from (distribution to) noncontrolling interests									(12)
BALANCE AT DECEMBER 31, 2016	17,421	1,079,314	\$ 1,665	\$ 1,257	\$ 6,385	\$ 9,378	\$ (2,904)	\$ (541)	—

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Year ended December 31,

in millions

	2016	2015	2014
OPERATING ACTIVITIES			
Net income (loss)	\$ 790	\$ 920	\$ 907
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Provision for credit losses	266	166	57
Provision (credit) for losses on LIHTC guaranteed funds	—	—	(7)
Depreciation and amortization expense, net	314	247	246
Accretion of acquired loans	116	—	—
Increase in cash surrender value of corporate-owned life insurance	(111)	(108)	(106)
Stock-based compensation expense	99	58	44
FDIC reimbursement (payments), net of FDIC expense	13	—	1
Deferred income taxes (benefit)	11	(76)	5
Proceeds from sales of loans held for sale	8,572	7,333	5,386
Originations of loans held for sale, net of repayments	(8,361)	(7,072)	(5,415)
Net losses (gains) from sale of loans held for sale	(139)	(103)	(97)
Net losses (gains) from principal investing	(20)	(51)	(78)
Net losses (gains) and writedown on OREO	4	4	3
Net losses (gains) on leased equipment	7	(6)	(35)
Net losses (gains) on sales of fixed assets	56	8	7
Net decrease (increase) in trading account assets	(79)	(38)	(12)
Direct acquisition costs	(44)	—	—
Gain on sale of Victory	—	—	(10)
Loss on sale of residual interests and deconsolidation of securitization trusts	—	—	40
Other operating activities, net	195	(151)	384
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,689	1,131	1,320
INVESTING ACTIVITIES			
Cash received (used) in acquisitions, net of cash acquired	(481)	—	(114)
Net decrease (increase) in short-term investments, excluding acquisitions	(68)	1,562	1,358
Purchases of securities available for sale	(5,718)	(4,090)	(3,797)
Proceeds from sales of securities available for sale	4,249	19	—
Proceeds from prepayments and maturities of securities available for sale	4,241	3,098	2,860
Proceeds from prepayments and maturities of held-to-maturity securities	1,627	1,102	850
Purchases of held-to-maturity securities	(6,968)	(988)	(1,109)
Purchases of other investments	(46)	(32)	(49)
Proceeds from sales of other investments	243	145	334
Proceeds from prepayments and maturities of other investments	4	8	4
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	(3,580)	(2,951)	(3,296)
Proceeds from sales of portfolio loans	140	110	120
Proceeds from corporate-owned life insurance	29	46	35
Purchases of premises, equipment, and software	(145)	(75)	(97)
Proceeds from sales of premises and equipment	—	1	1
Proceeds from sales of OREO	16	22	17
Proceeds from sale of residual interests	—	—	57
Proceeds from sale of Victory	—	—	10
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(6,457)	(2,023)	(2,816)
FINANCING ACTIVITIES			
Net increase (decrease) in deposits, excluding acquisitions	4,047	(952)	2,736
Net increase (decrease) in short-term borrowings	(1,294)	(93)	(879)
Net proceeds from issuance of long-term debt	2,827	3,756	1,727
Payments on long-term debt	(1,308)	(1,172)	(1,355)
Issuance of preferred shares	1,009	—	—
Repurchase of common shares	(140)	(448)	(484)
Net proceeds from reissuance of common shares	32	22	27
Cash dividends paid	(335)	(267)	(240)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	4,838	846	1,532
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	70	(46)	36
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	607	653	617
CASH AND DUE FROM BANKS AT END OF YEAR	\$ 677	\$ 607	\$ 653
Additional disclosures relative to cash flows:			
Interest paid	\$ 429	\$ 329	\$ 298
Income taxes paid (refunded)	144	281	131
Noncash items:			
Preferred stock issued to acquire First Niagara	\$ 350	—	—
Common stock issued to acquire First Niagara	2,831	—	—
Reduction of secured borrowing and related collateral	67	\$ 160	\$ 152
Loans transferred to portfolio from held for sale	10	1	19
Loans transferred to held for sale from portfolio	45	63	16
Loans transferred to other real estate owned	36	20	23
Assets acquired	35,634	—	41
Liabilities assumed	33,028	—	17
LIHTC guaranteed funds put	—	—	7

See Notes to Consolidated Financial Statements.

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. AICPA: American Institute of Certified Public Accountants. ALCO: Asset/Liability Management Committee. ALLL: Allowance for loan and lease losses. A/LM: Asset/liability management. AOI: Accumulated other comprehensive income (loss). APBO: Accumulated postretirement benefit obligation. ATMs: Automated teller machines. Austin: Austin Capital Management, Ltd. BSA: Bank Secrecy Act. BHCA: Bank Holding Company Act of 1956, as amended. BHCs: Bank holding companies. Board: KeyCorp Board of Directors. CCAR: Comprehensive Capital Analysis and Review. CFPB: Consumer Financial Protection Bureau. CFTC: Commodities Futures Trading Commission. CMBS: Commercial mortgage-backed securities. CMO: Collateralized mortgage obligation. Common shares: KeyCorp common shares, \$1 par value. DIF: Deposit Insurance Fund of the FDIC. Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. EBITDA: Earnings before interest, taxes, depreciation, and amortization. EPS: Earnings per share. ERISA: Employee Retirement Income Security Act of 1974. ERM: Enterprise risk management. EVE: Economic value of equity. FASB: Financial Accounting Standards Board. FDIA: Federal Deposit Insurance Act, as amended. FDIC: Federal Deposit Insurance Corporation. Federal Reserve: Board of Governors of the Federal Reserve System. FHLB: Federal Home Loan Bank of Cincinnati. FHLMC: Federal Home Loan Mortgage Corporation. FINRA: Financial Industry Regulatory Authority. First Niagara: First Niagara Financial Group, Inc. (NASDAQ: FNFG) FNMA: Federal National Mortgage Association. FSOC: Financial Stability Oversight Council. FVA: Fair value of employee benefit plan assets. GAAP: U.S. generally accepted accounting principles. GNMA: Government National Mortgage Association.	IRS: Internal Revenue Service. ISDA: International Swaps and Derivatives Association. KAHC: Key Affordable Housing Corporation. KBCM: KeyBanc Capital Markets, Inc. KCDC: Key Community Development Corporation. KEF: Key Equipment Finance. KREEC: Key Real Estate Equity Capital, Inc. LCR: Liquidity coverage ratio. LIBOR: London Interbank Offered Rate. LIHTC: Low-income housing tax credit. Moody's: Moody's Investor Services, Inc. MRM: Market Risk Management group. N/A: Not applicable. NASDAQ: The NASDAQ Stock Market LLC. NFA: National Futures Association. N/M: Not meaningful. NOW: Negotiable Order of Withdrawal. NPR: Notice of proposed rulemaking. NYSE: New York Stock Exchange. OCC: Office of the Comptroller of the Currency. OCI: Other comprehensive income (loss). OREO: Other real estate owned. OTTI: Other-than-temporary impairment. PBO: Projected benefit obligation. PCCR: Purchased credit card relationship. PCI: Purchased credit impaired. S&P: Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. SEC: U.S. Securities & Exchange Commission. Series A Preferred Stock: KeyCorp's 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A. 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. TDR: Troubled debt restructuring. TE: Taxable-equivalent. U.S. Treasury: United States Department of the Treasury. VaR: Value at risk. VEBA: Voluntary Employee Beneficiary Association. Victory: Victory Capital Management and/or Victory Capital Advisors. VIE: Variable interest entity.
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Organization

We are one of the nation's largest bank-based financial services companies, with consolidated total assets of \$136.5 billion at December 31, 2016. We provide deposit, lending, cash management, insurance, 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, 2016, KeyBank operated 1,217 full-service retail banking branches and 1,593 ATMs in 15 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 24 ("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 12 ("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 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 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 and unamortized premiums and discounts. 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, 2016, and December 31, 2015, are disclosed in Note 5 (“Loans and Loans Held for Sale”). Our commercial loans, which we originated and intend to sell, are carried at the lower of aggregate cost or fair value. Beginning with the third quarter of 2016, we elected the fair value option for our real estate - residential mortgages. 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. Additional information regarding fair value measurements associated with our loans held for sale is provided in Note 7 (“Fair Value Measurements”). 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. Subsequent increases in fair value for the real estate — residential loans are recorded to noninterest income, while subsequent increases in fair value for the commercial loans are not recognized. When a loan is originated as held-for-sale, we do not defer the related fees and costs. When a loan is transferred into 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 TDRs and nonaccruing TDR loans from prior years. Nonperforming loans do not include loans held for sale or PCI loans.

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, auto, 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 incurred 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 necessary. As of December 31, 2016, the probability of default ratings was based on our default data for the period from January 2008 through October 2016, 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 statistically derived from an analysis of our historical default and loss severity experience, and is sensitive to change in delinquency status. Consumer loans are analyzed quarterly in homogeneous product-type pools that share similar risk attributes, including the application of delinquency roll rate models and credit loss severity estimates. Incurred losses that are not yet individually identifiable are measured as the estimate of the average time period for initial loss indication to initial loss recorded for consumer loans. This “incurred loss period” typically ranges from 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.

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 \$55 million at December 31, 2016, and \$56 million at December 31, 2015. 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.

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.

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 7 (“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 8 (“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. “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 25% and 46% of other investments at December 31, 2016, and December 31, 2015, 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 (\$185 million at December 31, 2016, and \$304 million at December 31, 2015). 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 finance overnight customer sweep deposits 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 7 (“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.

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 9 (“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 9 (“Derivatives and Hedging Activities”).

Servicing Assets

We service commercial real estate loans. Servicing assets related to all commercial real estate loan servicing totaled \$356 million at December 31, 2016, and \$321 million at December 31, 2015. Servicing assets are included in “accrued income and other assets” on the balance sheet. Beginning in 2016, we service residential mortgages. Servicing assets related to residential mortgages totaled \$28 million at December 31, 2016.

Servicing assets and liabilities purchased or retained are initially 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.

Servicing assets are evaluated quarterly for possible impairment. This process involves stratifying the assets based upon one or more predominant risk characteristics and determining the fair value of each class. The characteristics may include financial asset type, size, interest rate, date of origination, term and geographic location. 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, 2016, December 31, 2015, and December 2014, was not material in amount. Additional information pertaining to servicing assets is included in Note 10 (“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) 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 2 (“Business Combination”) and Note 14 (“Acquisition, Divestiture, 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. The estimated remaining useful lives of our other intangible assets range from 6 months to 20 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 either a quantitative or qualitative goodwill impairment test 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.

Accounting guidance allows entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our qualitative assessment includes, but is not limited to, the evaluation of industry and market conditions, the economic environment and internal and peer performance. If we conclude that it is not more likely than not that the fair value of our reporting units are less than their carrying values, the traditional two-step goodwill impairment test (described below) is not required. We may also elect to bypass the qualitative assessment and continue directly to the two-step impairment test.

The first step in quantitative 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 11 ("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 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. Subsequent to the purchase date, the methods utilized to estimate the required ALLL for these loans is similar to originated loans; however, we record a provision for loan and lease losses only when the required ALLL exceeds any remaining purchase discount at the product level.

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. Revolving loans, including lines of credit and credit card loans, leases, and loans where cash flows cannot be reasonably estimated are excluded from PCI accounting. 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 that have similar risk characteristics, primarily credit risk, collateral type and interest rate risk, and are homogeneous in size, are pooled and accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. PCI loans that cannot be aggregated into a pool are accounted for individually.

Under the applicable accounting guidance for PCI loans, the excess of cash flows expected to be collected, measured as of the acquisition date, over the estimated fair value is referred to as the "accretable yield" and is recognized in interest income over the remaining life of the loan or 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 on the individual loan or pool and not to the contractual interest payments of the loan. The difference between the contractually required principal and interest payments as of the acquisition date and the cash flows expected to be collected is referred to as the “nonaccretable difference.” The nonaccretable difference, which is not accreted into income, reflects estimated future credit losses and uncollectible contractual payments over the life of the PCI loan.

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 each quarter. A decrease in expected cash flows in subsequent periods may indicate impairment and would require us to establish an ALLL by recording a charge to the provision for loan and lease losses. An increase in expected cash flows in subsequent periods initially reduces any previously established ALLL 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 PCI loan or 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 PCI loan or pool.

A PCI loan may be derecognized either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, foreclosure of the collateral, or charge-off. If one of these events occurs, the loan is removed from the loan pool, or derecognized if it is accounted for as an individual loan. PCI loans subject to modification are not removed from a PCI pool even if those loans would otherwise be deemed TDRs since the pool, and not the individual loan, represents the unit of account. Individually accounted for PCI loans that are modified in a TDR are no longer classified as PCI loans and are subject to TDR recognition.

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 method over the terms of the leases. Accumulated depreciation and amortization on premises and equipment totaled \$1.6 billion at December 31, 2016, and \$1.4 billion at December 31, 2015.

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 \$69 million at December 31, 2016, and \$77 million at December 31, 2015, 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

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 21 (“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 on the grant date. 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 5 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.

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 16 ("Stock-Based Compensation").

Marketing Costs

We expense all marketing-related costs, including advertising costs, as incurred.

Accounting Guidance Adopted in 2016

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 was effective prospectively for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us). Early adoption was permitted. The adoption of this accounting guidance did affect our financial condition and results of operations, and we provide the disclosures related to this new guidance in Note 2 ("Business Combination").

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 are 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 guidance was effective for interim and annual reporting periods beginning after December 15, 2015 (March 31, 2016, for us) on a retrospective basis. Early adoption was permitted. The adoption of this disclosure guidance did not affect our financial condition or results of operations. We provide the disclosure related to this new guidance in Note 7 ("Fair Value Measurements").

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 was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using either a prospective method or a retrospective method. Early adoption was permitted. We elected to implement this new accounting guidance using a prospective approach. The adoption of this accounting guidance did not affect 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 was effective retrospectively for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, 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.

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 was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and was implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption was permitted. The adoption of this accounting guidance did not affect our financial condition or results of operations. Our Principal Investing unit and the Real Estate Capital line of business have equity and mezzanine investments, which were subjected to the new guidance. We determined these investments are VIEs. We provide disclosures related to our variable interest entities as required by the new guidance in Note 12 (“Variable Interest Entities”).

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 was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using a modified retrospective basis. Retrospective application to all relevant prior periods and early adoption was permitted. The adoption of this accounting guidance did not affect 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 was effective for interim and annual reporting periods ending after December 15, 2016 (effective December 31, 2016 for us). Early adoption was permitted. We performed an assessment and there were no concerns related to our ability to continue as a going concern.

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 was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using either a retrospective method or a cumulative-effect approach. Early adoption was permitted. The adoption of this accounting guidance did not affect 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 was effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and could be implemented using either a retrospective method or a prospective method. Early adoption was permitted. We elected to implement this new accounting guidance using a prospective approach. The adoption of this accounting guidance did not affect our financial condition or results of operations.

Accounting Guidance Pending Adoption at December 31, 2016

Other income. In February 2017, the FASB issued new accounting guidance that clarifies the scope of asset derecognition guidance and accounting for partial sales of nonfinancial assets. The guidance clarifies that financial assets may be within scope of the derecognition guidance if they are promised to a counterparty in a contract and substantially all the fair value of the assets in the contract are concentrated in nonfinancial assets, which are collectively referred to as in substance nonfinancial assets. The guidance requires entities to derecognize a nonfinancial asset or in substance nonfinancial asset when a counterparty obtains controls of it and in a partial sale transaction when it does not have a controlling financial interest in the legal entity that holds the asset and when it transfers control of the asset. This accounting guidance is effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us). The guidance may be applied on a retrospective or modified retrospective basis. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2016. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

Goodwill and Other Intangibles. In January 2017, the FASB issued new accounting guidance that simplifies the test for goodwill impairment by eliminating the second step of the current two-step method. Under the new guidance, entities will compare the fair value of a reporting unit with its carrying amount. If the carrying amount exceeds the reporting unit's fair value, the entity is required to recognize an impairment charge for this amount. Current guidance requires an entity to proceed to a second step, whereby the entity would determine the fair value of its assets and liabilities. The new method applies to all reporting units. The option to perform a qualitative assessment is still allowable. This accounting guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020, 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.

Business combinations. In January 2017, the FASB issued accounting guidance that clarifies the definition of a business and removes the requirement for a market participant to consider whether they could replace missing elements in an integrated set of assets and activities. The guidance states that if substantially all of the fair value of the assets acquired or disposed of is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This accounting guidance will be effective for annual and interim reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and should be implemented using a prospective approach. Early application is allowed for transactions for which the acquisition date occurs before the issuance date or effective date of the amendments, as long as the transaction has not been reported in financial statements that have been issued or made available for issuance, and for transactions in which a subsidiary is deconsolidated or a group of assets is derecognized that occurs before the issuance date or effective date of the amendments, as long as the transaction has not been reported in financial statements that have been issued or made available for issuance. This guidance will not affect our financial condition or results of operations unless we acquire or dispose of a business subsequent to the date of adoption.

Statement of cash flows. In November 2016, the FASB issued accounting guidance requiring restricted cash and restricted cash equivalents to be included with other cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statement of cash flows. This accounting guidance will be effective for annual and interim reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and should be implemented using a retrospective approach. Early adoption is permitted. The adoption of this accounting guidance may affect the presentation in our Consolidated Statements of Cash Flows.

Consolidation. In October 2016, the FASB issued new accounting guidance that amends the previous consolidation guidance issued in February 2015, to require a decision maker that holds an interest in a VIE through an entity under common control to only consider its proportionate indirect interest in the VIE in determining whether the decision maker is the VIE's primary beneficiary. This new guidance eliminates the requirement that a decision maker treat the common control party's interest in the VIE as if the decision maker held the interest itself, an approach referred to as "full attribution." The new guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us), and it must be applied retrospectively to all periods beginning with the fiscal year that the previous guidance was initially applied. Early adoption is permitted. The adoption of this accounting guidance will not have a material effect on our financial condition or results of operations.

Income taxes. In October 2016, the FASB issued accounting guidance requiring an entity to recognize any deferred taxes from an intra-entity transfer of an asset other than inventory when the transfer occurs. This accounting guidance will be effective for annual and interim reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and should be implemented using a modified-retrospective approach. Early adoption is permitted but only as of the beginning of an annual reporting period for which financial statements have not yet been issued. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Statement of cash flows. In August 2016, the FASB issued new accounting guidance that clarifies how cash receipts and cash payments in certain specific transactions should be presented and classified in the statement of cash flows. These specific transactions include, but are not limited to, debt prepayment or extinguishment costs, contingent considerations made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate owned life insurance policies, and distributions from equity method investees. This guidance also clarifies that in instances of cash flows with multiple aspects that cannot be separately identified, classification should be based on the activity that is likely to be the predominant source of or use of cash flow. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and should be implemented using a retrospective approach. Early adoption is permitted. The adoption of this accounting guidance may affect the presentation in our Consolidated Statements of Cash Flows.

Financial instruments. In June 2016, the FASB issued new accounting guidance that changes the methodology for recognizing credit losses related to financial instruments. Under current GAAP, a credit loss is not recognized until it is probable the loss has been incurred. The new accounting guidance eliminates that threshold and expands the information required for an entity to consider when developing an estimate of expected credit losses, including the use of forecasted information. Entities will be required to present financial assets measured on an amortized cost basis at the net amount that is expected to be collected. This new guidance will impact the accounting for our loans, debt securities available for sale, and liability for credit losses on unfunded lending-related commitments as well as purchased financial assets with a more than insignificant amount of credit deterioration since origination. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2019 (effective January 1, 2020, for us). Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2018. This guidance must be implemented using a modified retrospective basis except a prospective approach must be used for debt securities for which an other-than-temporary impairment had been recognized before the effective date. A prospective transition approach also should be used for purchased financial assets with credit deterioration. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations and related disclosures.

Stock-based compensation. In March 2016, the FASB issued new accounting guidance that simplifies accounting for several aspects of share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and presentation on the statement of cash flows. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). The method of transition is dependent on the particular amendment within the new guidance. The changes expected to impact our financial statements include the requirement that all excess tax benefits and deficiencies that pertain to share-based payment arrangements be recognized within “income taxes” on our income statement instead of within “capital surplus” on our balance sheet. Under this new guidance, generally, if our share price increases over an award’s vesting period, the resulting tax windfall will decrease “income taxes.” In a like manner, if our share price decreases over an award’s vesting period, the resulting tax shortfall will increase “income taxes.” This change also removes the impact of the excess tax benefits and deficiencies from the calculation of diluted earnings per share, and is required to be applied on a prospective basis. We elected to retain our existing accounting policy of estimating award forfeitures upon the award’s grant date. The adoption of this accounting guidance will result in a reclassification from additional paid-in-capital to provision for income taxes. At this time, we expect the implementation of the guidance will be a benefit to our results of operations. The dollar amount of the impact, however, is dependent on the stock price on the date on which the holder exercises his or her non-qualified stock options or restrictions lapse on restricted stock.

Equity method investments. In March 2016, the FASB issued new accounting guidance that simplifies the transition to equity method accounting by eliminating the requirement for an investor to make retroactive adjustments to the investment, results of operations, and retained earnings on a step-by-step basis when an investment becomes qualified for equity method accounting. Instead, when an investment qualifies for the equity method due to an increase in ownership or degree of influence, an equity method investor is required to add the cost of acquiring the additional interest to the current basis of the previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for the equity method. This accounting guidance will be effective prospectively for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). Early adoption is permitted. This accounting guidance will only affect our financial condition or results of operations if there is an applicable change in an investment resulting in equity method accounting treatment.

Derivatives and hedging. In March 2016, the FASB issued new accounting guidance that requires an entity to use a four-step decision model when assessing contingent call (put) options that can accelerate the payment of principal on debt instruments to determine whether they are clearly and closely related to their debt hosts. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and must be implemented using a modified retrospective basis. Early adoption is permitted. The adoption of this accounting guidance did not effect our financial condition or results of operations.

Derivatives and hedging. In March 2016, the FASB issued new accounting guidance that clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, by itself, require dedesignation, but all other hedge accounting criteria must be met. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and can be implemented using either a prospective method or a modified retrospective method. Early adoption is permitted. We have elected to implement this new accounting guidance using a prospective method. The adoption of this accounting guidance did not affect our financial condition or results of operations.

Extinguishment of liabilities. In March 2016, the FASB issued new accounting guidance that clarifies that liabilities related to the sale of prepaid stored-value products are financial liabilities, and breakage should be accounted for under the breakage

guidance in the new revenue recognition accounting guidance. It also provides clarity on how prepaid product liabilities should be derecognized. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and can be implemented using either a modified retrospective approach or retrospective approach. We do not have the prepaid stored-value products referenced in the guidance; and therefore, the adoption of this accounting guidance will not affect our financial condition or results of operations.

Leases. In February 2016, the FASB issued new accounting guidance that requires a lessee to recognize a liability to make lease payments and a right of use asset representing its right to use an underlying asset during the lease term for both finance and operating leases. The definition of a lease was modified to exemplify the concept of control over an asset identified in the lease. Lease classification criteria remains substantially similar to criteria in current lease guidance. The guidance defines which payments can be used in determining lease classification. For short-term leases with a term of 12 months or less, lessees can make a policy election not to recognize lease assets and lease liabilities. Lessor accounting is largely unchanged. Leveraged leases that commenced before the effective date of the new guidance are grandfathered. New disclosures are required, and certain practical expedients are allowed upon adoption. This accounting and disclosure guidance will be effective for interim and annual reporting periods beginning after December 15, 2018 (effective January 1, 2019, for us) and should be implemented using the modified retrospective approach. Early adoption is permitted. We are currently in the early stages of implementation and are working to identify our complete lease population, including potential embedded leases. We expect the adoption of this standard to result in additional assets and liabilities, as we will be required to recognize operating leases on our Consolidated Balance Sheet. Other implementation matters to be addressed include, but are not limited to, the determination of effects on our financial and capital ratios and the quantification of the impacts that this accounting guidance may have on our financial condition or results of operations.

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, and therefore, this aspect of the guidance is not applicable to us. 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.

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. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five step model to be followed in making this determination. 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. We have already identified the revenue line items within scope of the new guidance and are currently in the process of performing an in-depth assessment, though 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. We are also evaluating the related disclosures. There are many aspects of this new accounting guidance that are still being interpreted, and the FASB has issued updates to certain aspects of the guidance to address implementation issues. For example, the FASB issued accounting guidance in March 2016 to clarify principal versus agent considerations and additional guidance in April 2016 to clarify the identification of performance obligations and the licensing implementation guidance. In May 2016, the FASB issued narrow-scope improvements related to collectability, sales tax and noncash consideration, and practical expedients for contract modifications and completed contracts. In December 2016, the FASB issued additional technical corrections and improvements. While certain implementation issues relevant to the industry are still pending resolution, including trade date versus settlement date recognition for broker dealers and the applicability of interchange revenues for card issuing banks, our preliminary conclusions reached as to the application of the new guidance are not expected to be significantly affected. We will continue to evaluate any impact as additional guidance is issued and as our internal assessment progresses.

2. Business Combination

First Niagara

On August 1, 2016 (the “Acquisition Date”), we acquired all of the outstanding common shares of First Niagara, the parent company of First Niagara Bank, for total consideration of approximately \$4.0 billion and thereby acquired First Niagara Bank's approximately 390 branch locations across New York, Pennsylvania, Connecticut, and Massachusetts. The merger with First Niagara enabled us to expand in the New England market and into the Pennsylvania market, improve our core deposit base, and add additional scale in our banking operations. The results of First Niagara's operations are included in our consolidated financial statements from the Acquisition Date.

Under the terms of the merger agreement, each outstanding share of First Niagara common stock was converted into the right to receive 0.680 KeyCorp common shares and \$2.30 in cash, for a total per share value of \$10.26, based on the \$11.70 closing price of KeyCorp's stock on July 29, 2016. In the aggregate, First Niagara stockholders received 240 million shares of KeyCorp common stock. Also under the terms of the merger agreement, First Niagara employee stock options and restricted stock awards converted into options to purchase and receive KeyCorp common stock. These options and restricted stock awards had a fair value of \$26 million on the date of acquisition. Our methodology for valuing employee stock options is disclosed in Note 17 (“Employee Benefits”) under the heading “Stock Options.” Our methodology for valuing restricted stock awards is disclosed in Note 17 (“Employee Benefits”) under the heading “Long-Term Incentive Compensation Program.”

In addition, at the time of the merger, each share of First Niagara preferred stock, Series B, was converted into the right to receive a share of KeyCorp preferred stock, Series C, a newly created series of KeyCorp preferred stock. Additional information on this series of preferred stock is provided in Note 23 (“Shareholders' Equity”) and Note 26 (“Subsequent Events”).

On October 7, 2016, First Niagara Bank merged with and into KeyBank, with KeyBank as the surviving entity. Systems and client conversion also occurred during the fourth quarter of 2016 in connection with the bank merger.

The acquisition of First Niagara constituted a business combination and was accounted for under the acquisition method of accounting. Accordingly, the assets acquired, the liabilities assumed, and the consideration paid were recorded at their estimated fair value as of the acquisition date. These fair value estimates are subject to change for up to one year after the Acquisition Date as additional information becomes available.

The following table provides the purchase price calculation as of the Acquisition Date and the identifiable assets purchased and the liabilities assumed at their estimated fair value. These fair value measurements are based on internal and third-party valuations.

in millions

Consideration paid:	
KeyCorp common stock issued	\$ 2,831
Cash payments to First Niagara stockholders	811
Exchange of First Niagara preferred stock for KeyCorp preferred stock	350
Total consideration paid	\$ 3,992

Statement of Net Assets Acquired at Fair Value:

ASSETS

Cash and due from banks and short-term investments	\$ 620
Investment securities	9,012
Other investments	297
Loans	23,645
Premises and equipment	245
Other intangible assets	385
Accrued income and other assets	1,430
Total assets	\$ 35,634

LIABILITIES

Deposits	\$ 28,994
Bank notes and other short-term borrowings	2,698
Accrued expense and other liabilities	490
Long-term debt	846
Total liabilities	\$ 33,028

Net identifiable assets acquired	2,606
Goodwill	\$ 1,386

Measurement Period Adjustments

We estimated the fair value of loans acquired from First Niagara by utilizing the discounted cash flow method within the income approach. This methodology aggregates the purchased loans by category and risk rating. Cash flows for each category were determined by estimating future credit losses and the rate of prepayments. Projected monthly cash flows were then discounted to present value based on a market rate for similar loans. There was no carryover of First Niagara's allowance for loan losses associated with the loans we acquired. The valuation of the acquired loans was not final prior to December 31, 2016, due to the relatively short time frame in which we had to complete the acquisition as well as the complexity involved in valuing loans. An estimate was recorded during the third quarter of 2016 based on the results of a valuation exercise conducted as of December 31, 2015, and applied to the August 1, 2016, balance of loans acquired from First Niagara.

During the fourth quarter of 2016, we continued to analyze the valuations assigned to the acquired assets and assumed liabilities. Our third party valuation firm provided revised valuations for loans based on the August 1, 2016 balances, which impacted the valuation estimates for loans and unfunded lending-related commitments. As of December 31, 2016, we continued to analyze the assumptions and related valuation results associated with the acquired loans. Due to the complexity in valuing the loans and the significant amount of data inputs required, the valuation of the loans, including unfunded lending-related commitments, is not yet final. As a result of revising the loan valuation, including unfunded commitments, the purchase accounting accretion and unfunded commitment amortization amounts are also subject to change. We anticipate finalizing the valuation during the first quarter of 2017. Depending on when the valuation is finalized within the first quarter, we may not be able to adjust the value of the acquired loans, if deemed necessary, until the second quarter of 2017. In addition, adjustments were made to fixed asset balances based on new information resulting in the revised fair values displayed below. Based on the revised valuations and new information, we updated our estimated fair values of these items within in our Consolidated Balance Sheet with a corresponding adjustment to goodwill. These changes are gross of taxes and reflected in the following table:

in millions

Acquired Asset or Liability	Balance Sheet Line Item	Provisional Estimate	Revised Estimate	Increase (Decrease)
Loans	Loans	\$ 23,504	\$ 23,645	\$ 141
Premises and equipment	Premises and equipment	276	245	(31)
Unfunded lending-related commitments	Accrued expense and other liabilities	24	67	43

The changes to the estimated fair values also impacted various income statement line items. The amounts shown in the table below represent the increase (decrease) in the respective line items in the Consolidated Statements of Income for the previous reporting period had the revised fair values been recorded at the Acquisition Date.

<i>in millions</i>			Portion Related to Previous Reporting Period ^(a)
Acquired Asset or Liability	Income Statement Line Item		
Loans	Interest income	\$	34
Loans	Other noninterest income		1
Premises and equipment	Depreciation expense		(1)
Unfunded lending-related commitments	Other noninterest income		3

(a) Represents the change in amount that should have been reported compared to what was actually reported in the September 30, 2016 Consolidated Statements of Income.

Information about the acquired First Niagara loan portfolio as of the Acquisition Date is presented below, and excludes lines of credit:

<i>in millions</i>	PCI
Contractual required payments receivable	\$ 1,378
Nonaccretable difference	189
Expected cash flows	1,189
Accretable yield	205
Fair value	<u>\$ 984</u>

At the First Niagara Acquisition Date, the contractual required payments receivable on the purchased non-impaired loans totaled \$22.6 billion, with an estimated corresponding fair value of \$22.2 billion. The estimated cash flows not expected to be collected at the Acquisition Date were \$399 million. These amounts do not include loans held for sale and the loans that were divested as part of the 18 branches that were sold on September 9, 2016.

Intangible assets consisted of the core deposit intangible, the commercial purchased credit card relationships, the consumer purchased credit card relationships, and other intangible assets. The core deposit intangible asset recognized as part of the First Niagara merger of \$356 million is being amortized over its estimated useful life of approximately ten years utilizing an accelerated method. The commercial purchased credit card relationships recognized as part of the First Niagara merger are being amortized over their estimated useful life of approximately six years utilizing an accelerated method. The consumer purchased credit card relationships recognized as part of the First Niagara merger are being amortized over their estimated useful life of approximately nine years utilizing an accelerated method.

Goodwill of \$1.4 billion was recorded as a result of the transaction and is not amortized for book purposes. \$1.1 billion of goodwill was assigned to our Key Community Bank segment and \$277 million of goodwill was assigned to our Key Corporate Bank segment. The goodwill recorded is not deductible for tax purposes. The following table shows the changes in the carrying amount of goodwill by reporting unit.

<i>in millions</i>	Key Community Bank	Key Corporate Bank	Total
BALANCE AT DECEMBER 31, 2014	\$ 979	\$ 78	\$ 1,057
Tax adjustment resulting from Pacific Crest Securities acquisition	—	3	3
BALANCE AT DECEMBER 31, 2015	979	81	1,060
Acquisition of First Niagara	1,109	277	1,386
BALANCE AT DECEMBER 31, 2016	<u>\$ 2,088</u>	<u>\$ 358</u>	<u>\$ 2,446</u>

Certificates of deposit were valued by projecting out the expected cash flows based on the contractual terms of the certificates of deposit. These cash flows were discounted based on a market rate for a certificate of deposit with a corresponding maturity. The fair values of savings and transaction deposit accounts acquired from First Niagara were assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand.

Direct acquisition costs related to the First Niagara acquisition were expensed as incurred and amounted to \$44 million for the twelve months ended December 31, 2016. Professional fees and charitable contributions comprised the majority of these direct acquisition costs, which also included franchise and business taxes and other noninterest expenses. These direct acquisition costs are part of our total merger-related charges.

The following table presents unaudited pro forma information as if the acquisition of First Niagara had occurred on January 1, 2015. This pro forma information gives effect to certain adjustments, including purchase accounting fair value adjustments, amortization of core deposit and other intangibles, and related income tax effects. Merger-related charges related to the First Niagara merger that we incurred during the twelve months ended December 31, 2016, and 2015, are not reflected in the unaudited pro forma amounts. The pro forma information does not necessarily reflect the results of operations that would have occurred had KeyCorp merged with First Niagara at the beginning of 2015. Cost savings are also not reflected in the unaudited pro forma amounts for the twelve months ended December 31, 2016, and 2015.

<i>in millions</i>	Pro forma	
	Twelve months ended December 31,	
	2016	2015
Net interest income (TE)	\$ 3,599	\$ 3,564
Noninterest income	2,231	2,206
Net income (loss) attributable to common shareholders	1,161	1,187

3. 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,	2016	2015	2014
<i>dollars in millions, except per share amounts</i>			
EARNINGS			
Income (loss) from continuing operations	\$ 789	\$ 919	\$ 946
Less: Net income (loss) attributable to noncontrolling interests	(1)	4	7
Income (loss) from continuing operations attributable to Key	790	915	939
Less: Dividends on Preferred Stock	37	23	22
Income (loss) from continuing operations attributable to Key common shareholders	753	892	917
Income (loss) from discontinued operations, net of taxes ^(a)	1	1	(39)
Net income (loss) attributable to Key common shareholders	\$ 754	\$ 893	\$ 878
WEIGHTED-AVERAGE COMMON SHARES			
Weighted-average common shares outstanding (000)	927,816	836,846	871,464
Effect of convertible preferred stock	—	—	—
Effect of common share options and other stock awards	10,720	7,643	6,735
Weighted-average common shares and potential common shares outstanding (000) ^(b)	938,536	844,489	878,199
EARNINGS PER COMMON SHARE			
Income (loss) from continuing operations attributable to Key common shareholders	\$.81	\$ 1.06	\$ 1.05
Income (loss) from discontinued operations, net of taxes ^(a)	—	—	(.04)
Net income (loss) attributable to Key common shareholders ^(c)	.81	1.06	1.01
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	\$.80	\$ 1.05	\$ 1.04
Income (loss) from discontinued operations, net of taxes ^(a)	—	—	(.04)
Net income (loss) attributable to Key common shareholders — assuming dilution ^(c)	.80	1.05	.99

- (a) In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. As a result of this decision, we have accounted for this business as a discontinued operation. For further discussion regarding the income (loss) from discontinued operations, see Note 14 (“Acquisition, Divestiture, 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.

4. 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 \$297 million in 2016 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 2016, KeyBank paid \$625 million in dividends to KeyCorp. At January 1, 2017, KeyBank had regulatory capacity to pay \$224 million in dividends to KeyCorp without prior regulatory approval. At December 31, 2016, KeyCorp held \$3.4 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.

5. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

December 31, in millions	2016	2015
Commercial, financial and agricultural ^(a)	\$ 39,768	\$ 31,240
Commercial real estate:		
Commercial mortgage	15,111	7,959
Construction	2,345	1,053
Total commercial real estate loans	17,456	9,012
Commercial lease financing ^(b)	4,685	4,020
Total commercial loans	61,909	44,272
Residential — prime loans:		
Real estate — residential mortgage	5,547	2,242
Home equity loans	12,674	10,335
Total residential — prime loans	18,221	12,577
Consumer direct loans	1,788	1,600
Credit cards	1,111	806
Consumer indirect loans	3,009	621
Total consumer loans	24,129	15,604
Total loans ^{(c), (d)}	\$ 86,038	\$ 59,876

- (a) Loan balances include \$116 million and \$85 million of commercial credit card balances at December 31, 2016, and December 31, 2015, respectively.
- (b) Commercial lease financing includes receivables of \$68 million and \$134 million held as collateral for a secured borrowing at December 31, 2016, and December 31, 2015, 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 19 ("Long-Term Debt").
- (c) At December 31, 2016, total loans include purchased loans of \$21 billion, of which \$865 million were purchased credit impaired. At December 31, 2015, total loans include purchased loans of \$114 million, of which \$11 million were purchased credit impaired.
- (d) Total loans exclude loans in the amount of \$1.6 billion at December 31, 2016, and \$1.8 billion at December 31, 2015, 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 9 ("Derivatives and Hedging Activities").

Our loans held for sale by category are summarized as follows:

December 31, <i>in millions</i>	2016	2015
Commercial, financial and agricultural	\$ 19	\$ 76
Real estate — commercial mortgage	1,022	532
Commercial lease financing	—	14
Real estate — residential mortgage ^(a)	62	17
Real estate — construction	1	—
Total loans held for sale	<u>\$ 1,104</u>	<u>\$ 639</u>

- (a) Real estate — residential mortgage loans held for sale at fair value at December 31, 2016. The fair value option was elected for real estate — residential mortgage loans held for sale during the third quarter of 2016 with the First Niagara acquisition. The contractual amount due on these loans totaled \$62 million at December 31, 2016. Changes in fair value are recorded in "Consumer mortgage income" on the income statement. Additional information regarding residential mortgage loans held for sale fair value methodology is provided in Note 7 ("Fair Value Measurements").

Our summary of changes in loans held for sale follows:

Year ended December 31, <i>in millions</i>	2016	2015
Balance at beginning of the period	\$ 639	\$ 734
Purchases	48	—
New originations	8,356	7,108
Transfers from (to) held to maturity, net	35	62
Loan sales	(7,979)	(7,229)
Loan draws (payments), net	5	(36)
Balance at end of period ^(a)	<u>\$ 1,104</u>	<u>\$ 639</u>

- (a) Total loans held for sale include Real Estate - residential mortgage loans held for sale at fair value of \$62 million at December 31, 2016.

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, <i>in millions</i>	2016	2015
Direct financing lease receivables	\$ 3,468	\$ 2,821
Unearned income	(278)	(224)
Unguaranteed residual value	316	261
Deferred fees and costs	16	17
Net investment in direct financing leases	<u>\$ 3,522</u>	<u>\$ 2,875</u>

At December 31, 2016, minimum future lease payments to be received are as follows: 2017 — \$1 billion; 2018 — \$818 million; 2019 — \$575 million; 2020 — \$371 million; 2021 — \$210 million; and all subsequent years — \$387 million. The allowance related to lease financing receivables is \$42 million at December 31, 2016.

6. 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 assets include nonperforming loans, nonperforming loans held for sale, OREO, and other nonperforming assets. Non-impaired acquired loans are placed on nonaccrual status and reported as nonperforming or past due using the same criteria applied to the originated portfolio. PCI loans cannot be classified as nonperforming loans or TDRs. If an individually accounted for PCI loan is modified in a TDR, it is no longer classified or accounted for as a PCI loan.

Our nonperforming assets and past due loans were as follows:

December 31,

in millions

	2016	2015
Total nonperforming loans ^(a)	\$ 625	\$ 387
OREO ^(b)	51	14
Other nonperforming assets	—	2
Total nonperforming assets	\$ 676	\$ 403
Nonperforming assets from discontinued operations — education lending ^(c)	\$ 5	\$ 7
TDRs included in nonperforming loans	141	159
TDRs with an allocated specific allowance ^(d)	59	69
Specifically allocated allowance for TDRs ^(e)	27	30
Accruing loans past due 90 days or more	\$ 87	\$ 72
Accruing loans past due 30 through 89 days	404	208

(a) Loan balances exclude \$865 million and \$11 million of PCI loans at December 31, 2016, and December 31, 2015, respectively.

(b) Includes carrying value of foreclosed residential real estate of approximately \$29 million and \$11 million at December 31, 2016, and December 31, 2015, respectively.

(c) TDRs of approximately \$22 million and \$21 million are included in discontinued operations at December 31, 2016, and December 31, 2015, respectively. See Note 14 ("Acquisition, Divestiture, and Discontinued Operations") for further discussion.

(d) Included in individually impaired loans allocated a specific allowance.

(e) 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. Several factors were considered when evaluating whether a loan was considered a PCI loan, including the delinquency status of the loan, updated borrower credit status, geographic information, and updated loan-to-values (LTV). In accordance with ASC 310-30, excluded from the purchased impaired loans were leases, revolving credit arrangements, and loans held for sale. Auto, boat and RV loans were also excluded from purchased impaired loans due to Key's inability to develop a reasonable estimate of the timing and magnitude of cash flows related to these loans.

We estimated the fair value of loans acquired from First Niagara by utilizing the discounted cash flow method within the income approach. See Note 2 ("Business Combination") for further discussion over the fair value methodology. There was no carryover of First Niagara's allowance for loan losses associated with the loans we acquired. The excess of a PCI loan's contractually required payments over the amount of its undiscounted cash flows expected to be collected is referred to as the nonaccretable difference. The nonaccretable difference, which is not accreted into income, reflects estimated future credit losses and uncollectible contractual interest expected to be incurred over the life of the PCI loan. The excess of cash flows expected to be collected over the carrying amount of the PCI loans is referred to as the accretable yield. This amount is accreted into interest income over the remaining life of the PCI loans or pools using the level yield method.

Over the life of PCI loans, Key evaluates the remaining contractual required payments receivable and estimates cash flows expected to be collected. Contractually required payments receivable may increase or decrease for a variety of reasons, for example, when the contractual terms of the loan agreement are modified, when interest rates on variable rate loans change, or when principal and/or interest payments are received. Cash flows expected to be collected on PCI loans are estimated by incorporating several key assumptions similar to the initial estimate of fair value. These key assumptions include probability of default, loss given default, and the amount of actual prepayments after the Acquisition Date. Increases in expected cash flows of PCI loans subsequent to acquisition are recognized prospectively through adjustment of the yield on the loans or pools over its remaining life, while decreases in expected cash flows are recognized as impairment through a provision for loan and lease losses and an increase in the ALLL.

The difference between the fair value of a non-impaired acquired loan and contractual amounts due at the Acquisition Date is accreted into income over the estimated life of the loan. Contractually required payments represent the total undiscounted amount of all uncollected principal and interest payments.

The following table presents the PCI loans receivable balance at the First Niagara Acquisition Date:

August 1, 2016

in millions

PCI

Contractual required payments receivable	\$	1,378
Nonaccretable difference		189
Expected cash flows		1,189
Accretable yield		205
Fair Value	\$	984

At the First Niagara Acquisition Date, the contractual required payments receivable on the purchased non-impaired loans totaled \$22.6 billion, with an estimated corresponding fair value of \$22.2 billion. The estimated cash flows not expected to be collected at the Acquisition Date were \$399 million. These amounts do not include loans held for sale and the loans that were divested as part of the 18 branches that were sold on September 9, 2016.

Key has PCI loans from two separate acquisitions, one in 2012 and one during the third quarter of 2016. 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 following table presents the rollforward of the accretable yield and the beginning and ending outstanding unpaid principal balance and carrying amount of PCI loans for the twelve months ended months ended December 31, 2016, December 31, 2015, and December 31, 2014.

PCI Loans

<i>in millions</i>	Twelve Months Ended December 31,					
	2016			2015		
	Accretable Yield	Carrying Amount	Outstanding Unpaid Principal Balance	Accretable Yield	Carrying Amount	Outstanding Unpaid Principal Balance
Balance at beginning of period	\$ 5	\$ 11	\$ 17	\$ 5	\$ 13	\$ 20
Additions	205			—		
Accretion	(29)			(1)		
Net reclassifications from non-accretable to accretable	35			1		
Payments received, net	(19)			—		
Disposals	—			—		
Balance at end of period	\$ 197	\$ 865	\$ 1,002	\$ 5	\$ 11	\$ 17

<i>in millions</i>	Twelve Months Ended December 31,		
	2014		
	Accretable Yield	Carrying Amount	Outstanding Unpaid Principal Balance
Balance at beginning of period	\$ 5	\$ 16	\$ 24
Additions	—		
Accretion	(2)		
Net reclassifications from non-accretable to accretable	2		
Payments received, net	—		
Disposals	—		
Balance at end of period	\$ 5	\$ 13	\$ 20

At December 31, 2016, the approximate carrying amount of our commercial nonperforming loans outstanding represented 78% of their original contractual amount owed, total nonperforming loans outstanding represented 81% of their original contractual amount owed, and nonperforming assets in total were carried at 81% of their original contractual amount owed.

At December 31, 2016, our 20 largest nonperforming loans totaled \$253 million, representing 41% of total loans on nonperforming status. At December 31, 2015, our 20 largest nonperforming loans totaled \$97 million, representing 25% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by \$26 million, \$16 million, and \$16 million for each of the twelve months ended December 31, 2016, December 31, 2015, and December 31, 2014, respectively.

The following tables set forth a further breakdown of individually impaired loans as of December 31, 2016, and December 31, 2015:

December 31, 2016 <i>in millions</i>	Recorded Investment ^(a)	Unpaid Principal Balance ^(b)	Specific Allowance
With no related allowance recorded:			
Commercial, financial and agricultural	\$ 222	\$ 301	—
Commercial real estate:			
Commercial mortgage	2	3	—
Construction	—	—	—
Total commercial real estate loans	2	3	—
Total commercial loans	224	304	—
Real estate — residential mortgage	20	20	—
Home equity loans	61	61	—
Consumer indirect loans	1	1	—
Total consumer loans	82	82	—
Total loans with no related allowance recorded	306	386	—
With an allowance recorded:			
Commercial, financial and agricultural	62	73	\$ 17
Commercial real estate:			
Commercial mortgage	4	4	—
Total commercial real estate loans	4	4	—
Total commercial loans	66	77	17
Real estate — residential mortgage	31	31	2
Home equity loans	64	64	18
Consumer direct loans	2	3	—
Credit cards	3	3	—
Consumer indirect loans	29	29	1
Total consumer loans	129	130	21
Total loans with an allowance recorded	195	207	38
Total	\$ 501	\$ 593	\$ 38

(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.

December 31, 2015
in millions

	Recorded Investment ^(a)	Unpaid Principal Balance ^(b)	Specific Allowance
With no related allowance recorded:			
Commercial, financial and agricultural	\$ 40	\$ 74	—
Commercial real estate:			
Commercial mortgage	5	8	—
Construction	5	5	—
Total commercial real estate loans	10	13	—
Total commercial loans	50	87	—
Real estate — residential mortgage	23	23	—
Home equity loans	61	61	—
Consumer indirect loans	1	1	—
Total consumer loans	85	85	—
Total loans with no related allowance recorded	135	172	—
With an allowance recorded:			
Commercial, financial and agricultural	28	43	\$ 7
Commercial real estate:			
Commercial mortgage	5	6	1
Total commercial real estate loans	5	6	1
Total commercial loans	33	49	8
Real estate — residential mortgage	33	33	4
Home equity loans	64	64	20
Consumer direct loans	3	3	—
Credit cards	3	3	—
Consumer indirect loans	37	37	3
Total consumer loans	140	140	27
Total loans with an allowance recorded	173	189	35
Total	\$ 308	\$ 361	\$ 35

- (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.

The following table sets forth a further breakdown of average individually impaired loans reported by Key:

Average Recorded Investment^(a)
in millions

	Twelve Months Ended December 31,		
	2016	2015	2014
Commercial, financial and agricultural	\$ 176	\$ 56	\$ 46
Commercial real estate:			
Commercial mortgage	8	15	24
Construction	3	7	29
Total commercial real estate loans	11	22	53
Total commercial loans	187	78	99
Real estate — residential mortgage	53	55	55
Home equity loans	125	122	117
Consumer direct loans	3	4	4
Credit cards	3	4	5
Consumer indirect loans	34	42	50
Total consumer loans	218	227	231
Total	\$ 405	\$ 305	\$ 330

- (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.

For the twelve months ended December 31, 2016, December 31, 2015, and December 31, 2014, interest income recognized on the outstanding balances of accruing impaired loans totaled \$10 million, \$6 million, and \$7 million, respectively.

At December 31, 2016, aggregate TDR loans (accrual and nonaccrual loans) totaled \$280 million, compared to \$280 million at December 31, 2015, and \$270 million at December 31, 2014. During 2016, we added \$107 million in TDRs, which were offset by \$107 million in payments and charge-offs. During 2015, we added \$99 million in TDR loans, which were partially offset by

\$89 million in payments and charge-offs. During 2014, we added \$93 million in TDR loans, which were offset by \$161 million in payments and charge-offs.

A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2016, follows:

December 31, 2016		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	18	\$	91	\$ 50
Commercial real estate:				
Real estate — commercial mortgage	7		2	1
Total commercial real estate loans	7		2	1
Total commercial loans	25		93	51
Real estate — residential mortgage	264		16	16
Home equity loans	1,199		77	69
Consumer direct loans	32		1	—
Credit cards	336		2	2
Consumer indirect loans	124		4	3
Total consumer loans	1,955		100	90
Total nonperforming TDRs	1,980		193	141
Prior-year accruing: ^(a)				
Commercial, financial and agricultural	5		30	16
Total commercial loans	5		30	16
Real estate — residential mortgage	477		35	35
Home equity loans	1,231		70	57
Consumer direct loans	35		2	2
Credit cards	410		3	1
Consumer indirect loans	377		56	28
Total consumer loans	2,530		166	123
Total prior-year accruing TDRs	2,535		196	139
Total TDRs	4,515	\$	389	\$ 280

(a) All TDRs that were restructured prior to January 1, 2016, and are fully accruing.

A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2015, follows:

December 31, 2015				
dollars in millions				
	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	
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 loans	1,262	85		76
Consumer direct loans	28	1		1
Credit cards	339	2		2
Consumer indirect loans	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 loans	1,071	57		49
Consumer direct loans	42	2		2
Credit cards	461	4		2
Consumer indirect loans	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.

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 loans		1,342	83	76
Consumer direct loans		37	2	1
Credit cards		290	2	2
Consumer indirect loans		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 loans		984	50	44
Consumer direct loans		45	2	2
Credit cards		514	4	2
Consumer indirect loans		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.

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. Acquired loans that were previously modified by First Niagara in a TDR are no longer classified as TDRs at the Acquisition Date. An acquired loan may only be classified as a TDR if a modification meeting the above TDR criteria is performed after the Acquisition Date. PCI loans cannot be classified as TDRs. 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 14 (“Acquisition, Divestiture, 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 due. During the year ended December 31, 2016, there were no commercial loan TDRs and 187 consumer loan TDRs with a combined recorded investment of \$9 million that experienced payment defaults after modifications resulting in TDR status during 2015. 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. 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. Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are \$14 million and \$9 million at December 31, 2016, and December 31, 2015, respectively.

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. At December 31, 2016, and December 31, 2015, the recorded investment of consumer residential mortgage loans in the process of foreclosure was approximately \$141 million and \$114 million, respectively.

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>	Twelve Months Ended December 31,		
	2016	2015	2014
Commercial loans:			
Interest rate reduction	\$ 14	\$ 43	\$ 2
Forgiveness of principal	—	—	—
Other	23	—	19
Total	\$ 37	\$ 43	\$ 21
Consumer loans:			
Interest rate reduction	\$ 10	\$ 19	\$ 29
Forgiveness of principal	3	4	1
Other	21	17	28
Total	\$ 34	\$ 40	\$ 58
Total commercial and consumer TDRs	\$ 71	\$ 83	\$ 79
Total loans	86,038	59,876	57,381

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, 2016, approximately \$84.1 billion, or 97.7%, of our total loans were current, compared to \$59.2 billion, or 98.9%, at December 31, 2015. At December 31, 2016, total past due loans and nonperforming loans of \$1.1 billion represented approximately 1.3% of total loans, compared to \$667 million, or 1.1%, at December 31, 2015.

The following aging analysis of past due and current loans as of December 31, 2016, and December 31, 2015, provides further information regarding Key's credit exposure.

Aging Analysis of Loan Portfolio ^(a)

December 31, 2016									
<i>in millions</i>	Current	30-59 Days Past Due ^(b)	60-89 Days Past Due ^(b)	90 and Greater Days Past Due ^(b)	Non- performing Loans	Total Past Due and Non- performing Loans	Purchased Credit Impaired	Total Loans ^{(c), (d)}	
LOAN TYPE									
Commercial, financial and agricultural	\$ 39,242	\$ 58	\$ 28	\$ 31	\$ 297	\$ 414	112	\$ 39,768	
Commercial real estate:									
Commercial mortgage	14,655	93	9	6	26	134	322	15,111	
Construction	2,314	—	—	2	3	5	26	2,345	
Total commercial real estate loans	16,969	93	9	8	29	139	348	17,456	
Commercial lease financing	4,641	28	3	5	8	44	—	4,685	
Total commercial loans	\$ 60,852	\$ 179	\$ 40	\$ 44	\$ 334	\$ 597	460	\$ 61,909	
Real estate — residential mortgage	\$ 5,098	\$ 17	\$ 5	\$ 3	\$ 56	\$ 81	368	\$ 5,547	
Home equity loans	12,327	49	29	16	223	317	30	12,674	
Consumer direct loans	1,705	44	15	11	6	76	7	1,788	
Credit cards	1,082	9	6	12	2	29	—	1,111	
Consumer indirect loans	2,993	7	4	1	4	16	—	3,009	
Total consumer loans	\$ 23,205	\$ 126	\$ 59	\$ 43	\$ 291	\$ 519	405	\$ 24,129	
Total loans	\$ 84,057	\$ 305	\$ 99	\$ 87	\$ 625	\$ 1,116	865	\$ 86,038	

- (a) Amounts in table represent recorded investment and exclude loans held for sale. 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.
- (b) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to collect principal or interest in full based on the original contractual terms), as we are currently accreting income over the remaining term of the loans.
- (c) Net of unearned income, net deferred loan fees and costs, and unamortized discounts and premiums.
- (d) Future accretable yield related to purchased credit impaired loans is not included in the analysis of the loan portfolio.

December 31, 2015									
<i>in millions</i>	Current	30-59 Days Past Due ^(b)	60-89 Days Past Due ^(b)	90 and Greater Days Past Due ^(b)	Non- performing Loans	Total Past Due and Non- performing Loans	Purchased Credit Impaired	Total Loans ^{(c), (d)}	
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 loans	10,056	50	24	14	190	278	1	10,335	
Consumer direct loans	1,580	10	3	5	2	20	—	1,600	
Credit cards	785	6	4	9	2	21	—	806	
Consumer indirect loans	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	

- (a) Amounts in table represent recorded investment and exclude loans held for sale. 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.
- (b) Past due loan amounts exclude purchased impaired loans, even if contractually past due (or if we do not expect to collect principal or interest in full based on the original contractual terms), as we are currently accreting income over the remaining term of the loans.
- (c) Net of unearned income, net deferred loan fees and costs, and unamortized discounts and premiums.
- (d) Future accretable yield related to purchased credit impaired loans is not included in the analysis of the loan portfolio.

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.

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.

Commercial Credit Exposure — Excluding PCI Credit Risk Profile by Creditworthiness Category ^{(a), (b)}

December 31,

<i>in millions</i>	Commercial, financial and agricultural		RE — Commercial		RE — Construction		Commercial Lease		Total	
RATING	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Pass	\$ 37,845	\$ 29,921	\$ 14,308	\$ 7,800	\$ 2,287	\$ 1,007	\$ 4,632	\$ 3,967	\$ 59,072	\$ 42,695
Criticized (Accruing)	1,514	1,236	455	139	30	37	45	38	2,044	1,450
Criticized (Nonaccruing)	297	83	26	20	2	9	8	15	333	127
Total	\$ 39,656	\$ 31,240	\$ 14,789	\$ 7,959	\$ 2,319	\$ 1,053	\$ 4,685	\$ 4,020	\$ 61,449	\$ 44,272

(a) Credit quality indicators are updated on an ongoing basis and reflect credit quality information as of the dates indicated.

(b) The term criticized refers to those loans that are internally classified by Key as special mention or worse, which are asset quality categories defined by regulatory authorities. These assets have an elevated level of risk and may have a high probability of default or total loss. Pass rated refers to all loans not classified as criticized.

Consumer Credit Exposure — Excluding PCI Non-PCI Loans by Refreshed FICO Score ^(a)

December 31,

<i>in millions</i>	Residential — Prime		Consumer direct loans		Credit cards		Consumer indirect loans		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
750 and above	\$ 9,818	\$ 6,378	\$ 498	\$ 445	\$ 453	\$ 322	\$ 1,266	\$ 233	\$ 12,035	\$ 7,378
660 to 749	5,266	3,822	661	619	525	389	1,195	265	7,647	5,095
Less than 660	1,617	1,291	194	203	132	94	543	120	2,486	1,708
No Score	1,122	1,075	428	333	1	1	5	3	1,556	1,412
Total	\$ 17,823	\$ 12,566	\$ 1,781	\$ 1,600	\$ 1,111	\$ 806	\$ 3,009	\$ 621	\$ 23,724	\$ 15,593

(a) Borrower FICO scores provide information about the credit quality of our consumer loan portfolio as they provide an indication as to the likelihood that a debtor will repay their debts. The scores are obtained from a nationally recognized consumer rating agency and are presented in the above table at the dates indicated.

Commercial Credit Exposure — PCI Credit Risk Profile by Creditworthiness Category ^{(a), (b)}

December 31,

<i>in millions</i>	Commercial, financial and agricultural		RE — Commercial		RE — Construction		Commercial Lease		Total	
RATING	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Pass	\$ 12	\$ —	\$ 139	\$ —	\$ 21	\$ —	\$ —	\$ —	\$ 172	\$ —
Criticized	100	—	183	—	5	—	—	—	288	—
Total	\$ 112	\$ —	\$ 322	\$ —	\$ 26	\$ —	\$ —	\$ —	\$ 460	\$ —

(a) Credit quality indicators are updated on an ongoing basis and reflect credit quality information as of the dates indicated.

(b) The term criticized refers to those loans that are internally classified by Key as special mention or worse, which are asset quality categories defined by regulatory authorities. These assets have an elevated level of risk and may have a high probability of default or total loss. Pass rated refers to all loans not classified as criticized.

Consumer Credit Exposure — PCI
PCI Loans by Refreshed FICO Score ^(a)

December 31, <i>in millions</i>	Residential — Prime		Consumer direct loans		Credit cards		Consumer indirect loans		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
750 and above	\$ 133	\$ 2	—	—	—	—	—	—	\$ 133	\$ 2
660 to 749	127	3	2	—	—	—	—	—	129	3
Less than 660	133	5	4	—	—	—	—	—	137	5
No Score	5	1	1	—	—	—	—	—	6	1
Total	\$ 398	\$ 11	\$ 7	—	—	—	—	—	\$ 405	\$ 11

(a) Borrower FICO scores provide information about the credit quality of our consumer loan portfolio as they provide an indication as to the likelihood that a debtor will repay their debts. The scores are obtained from a nationally recognized consumer rating agency and are presented in the above table at the dates indicated.

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.

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.

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.

The ALLL on the acquired non-impaired loan portfolio is estimated using the same methodology as the originated portfolio, however, the estimated ALLL is compared to the remaining accretable yield to determine if an ALLL must be recorded. For PCI loans, Key estimates cash flows expected to be collected quarterly. Decreases in expected cash flows are recognized as impairment through a provision for loan and lease losses and an increase in the ALLL. The ALLL at December 31, 2016, represents our best estimate of the incurred credit losses inherent in the loan portfolio at that date.

At December 31, 2016, the ALLL was \$858 million, compared to \$796 million, at December 31, 2015.

A summary of the changes in the ALLL for the periods indicated is presented in the table below:

December 31, <i>in millions</i>	2016	2015	2014
Balance at beginning of period — continuing operations	\$ 796	\$ 794	\$ 848
Charge-offs	(261)	(203)	(211)
Recoveries	56	61	98
Net loans and leases charged off	(205)	(142)	(113)
Provision for loan and lease losses from continuing operations	267	145	59
Foreign currency translation adjustment	—	(1)	—
Balance at end of period — continuing operations	\$ 858	\$ 796	\$ 794

The changes in the ALLL by loan category for the periods indicated are as follows:

<i>in millions</i>	December 31, 2015	Provision	Charge-offs	Recoveries	December 31, 2016
Commercial, financial and agricultural	\$ 450	\$ 165	\$ (118)	\$ 11	\$ 508
Real estate — commercial mortgage	134	6	(5)	9	144
Real estate — construction	25	4	(9)	2	22
Commercial lease financing	47	4	(12)	3	42
Total commercial loans	656	179	(144)	25	716
Real estate — residential mortgage	18	2	(4)	1	17
Home equity loans	57	13	(30)	14	54
Consumer direct loans	20	26	(27)	5	24
Credit cards	32	37	(35)	4	38
Consumer indirect loans	13	10	(21)	7	9
Total consumer loans	140	88	(117)	31	142
Total ALLL — continuing operations	796	267 ^(a)	(261)	56	858
Discontinued operations	28	13	(28)	11	24
Total ALLL — including discontinued operations	\$ 824	\$ 280	\$ (289)	\$ 67	\$ 882

(a) Excludes a credit for losses on lending-related commitments of \$1 million.

<i>in millions</i>	December 31, 2014	Provision	Charge-offs	Recoveries	December 31, 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 loans	71	7	(32)	11	57
Consumer direct loans	22	16	(24)	6	20
Credit cards	33	27	(30)	2	32
Consumer indirect loans	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.

<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 loans	95	8	(46)	14	71
Consumer direct loans	29	17	(30)	6	22
Credit cards	34	32	(34)	1	33
Consumer indirect loans	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) Includes a \$2 million foreign currency translation adjustment.

Our ALLL from continuing operations remained relatively stable, increasing by \$62 million, or 7.8%, since 2015. 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 \$60 million, or 9.1%, since 2015 primarily because of loan growth in our commercial, financial and agricultural portfolio and an increase in incurred loss estimates during 2015 and into 2016 primarily due to the continued depressed oil and gas prices since 2014. Our consumer ALLL increased by \$2 million, or 1.4%, since 2015. Our consumer ALLL increase was primarily due to the addition of the acquired credit card and consumer direct portfolios, which were acquired at a premium. This increase was partially offset by continued improvement in credit metrics, which have decreased expected loss rates since 2014. The continued improvement in the consumer portfolio credit quality metrics since 2015 was primarily due to benefits of relatively stable economic conditions and improved delinquency rates, average credit bureau scores, and residential LTVs.

For continuing operations, the loans outstanding individually evaluated for impairment totaled \$501 million, with a corresponding allowance of \$37 million at December 31, 2016. Loans outstanding collectively evaluated for impairment totaled \$84.7 billion, with a corresponding allowance of \$816 million at December 31, 2016. At December 31, 2016, PCI loans evaluated for impairment totaled \$865 million, increasing from \$11 million at December 31, 2015. At December 31, 2016, PCI loans had a corresponding allowance of \$5 million. There was \$11 million of provision for loan and lease losses on these PCI loans during the year ended December 31, 2016. At December 31, 2015, the loans outstanding individually evaluated for impairment totaled \$308 million, with a corresponding allowance of \$35 million. 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, decreasing from \$13 million at December 31, 2014. At December 31, 2015, PCI loans had 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.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2016, follows:

December 31, 2016 <i>in millions</i>	Allowance			Loans	Outstanding		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
Commercial, financial and agricultural	\$ 17	\$ 486	\$ 5	\$ 39,768	\$ 284	\$ 39,372	\$ 112
Commercial real estate:							
Commercial mortgage	—	144	—	15,111	5	14,784	322
Construction	—	22	—	2,345	—	2,319	26
Total commercial real estate loans	—	166	—	17,456	5	17,103	348
Commercial lease financing	—	42	—	4,685	—	4,685	—
Total commercial loans	17	694	5	61,909	289	61,160	460
Real estate — residential mortgage	2	15	—	5,547	51	5,128	368
Home equity loans	17	37	—	12,674	125	12,519	30
Consumer direct loans	—	24	—	1,788	3	1,778	7
Credit cards	—	38	—	1,111	3	1,108	—
Consumer indirect loans	1	8	—	3,009	30	2,979	—
Total consumer loans	20	122	—	24,129	212	23,512	405
Total ALLL — continuing operations	37	816	5	86,038	501	84,672	865
Discontinued operations	2	22	—	1,565 ^(a)	22	1,543 ^(a)	—
Total ALLL — including discontinued operations	\$ 39	\$ 838	\$ 5	\$ 87,603	\$ 523	\$ 86,215	\$ 865

(a) Amount includes \$3 million of loans carried at fair value that are excluded from ALLL consideration.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2015, follows:

December 31, 2015 <i>in millions</i>	Allowance			Loans	Outstanding		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
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 loans	20	37	—	10,335	125	10,209	1
Consumer direct loans	—	20	—	1,600	3	1,597	—
Credit cards	—	32	—	806	3	803	—
Consumer indirect loans	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.

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 \$55 million at December 31, 2016.

Changes in the liability for credit losses on unfunded lending-related commitments are summarized as follows:

Year ended December 31, <i>in millions</i>	2016	2015	2014
Balance at beginning of period	\$ 56	\$ 35	\$ 37
Provision (credit) for losses on lending-related commitments	(1)	21	(2)
Balance at end of period	\$ 55	\$ 56	\$ 35

7. 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 valuation models or third-party pricing services. Both of these approaches rely on market-based parameters, when available, such as 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 14 (“Acquisition, Divestiture, 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 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, 2016, 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.

Direct private equity and mezzanine investments are classified as Level 3 assets since there is a certain amount of subjectivity and use of unobservable inputs surrounding our 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, 2016, and December 31, 2015.

The fair value of our indirect investments is based on 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. The Federal Reserve extended the conformance period to July 21, 2017, for all banking entities with respect to covered funds. On January 13, 2017, Key filed for an additional extension for illiquid funds, to retain certain indirect investments until the earlier of the date on which the investment is conformed or is expected to mature or July 21, 2022. The application for an extension was approved on February 14, 2017. As of December 31, 2016, we have not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology.

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, 2016. We did not provide any financial support to investees related to our direct and indirect investments for the years ended December 31, 2016, and December 31, 2015.

December 31, 2016

in millions

	Fair Value	Unfunded Commitments
INVESTMENT TYPE		
Indirect investments		
Passive funds ^(a)	\$ 6	\$ 2
Total	<u>\$ 6</u>	<u>\$ 2</u>

- (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 three 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 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. 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 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 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). Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. The Federal Reserve extended the conformance period to July 21, 2017, for all banking entities with respect to covered funds. On January 13, 2017, Key filed for an additional extension for illiquid funds, to retain certain indirect investments until the earlier of the date on which the investment is conformed or is expected to mature or July 21, 2022. The application for an extension was approved on February 14, 2017. As of December 31, 2016, we have 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. 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.

The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at December 31, 2016, as well as financial support provided for the years ended December 31, 2016, and December 31, 2015.

	Financial support provided					
	Year ended December 31,					
	December 31, 2016		2016		2015	
<i>in millions</i>	Fair Value	Unfunded Commitments	Funded Commitments	Funded Other	Funded Commitments	Funded Other
INVESTMENT TYPE						
Direct investments ^(a)	\$ 27	—	—	\$ 13	—	\$ 2
Indirect investments ^(b)	158	\$ 37	\$ 6	—	\$ 8	—
Total	<u>\$ 185</u>	<u>\$ 37</u>	<u>\$ 6</u>	<u>\$ 13</u>	<u>\$ 8</u>	<u>\$ 2</u>

- (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 eight 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.

Loans Held for Sale. As of August 1, 2016, we account for our residential mortgage loans held for sale at fair value on a recurring basis. The election of the fair value option aligns the accounting for the residential mortgages held for sale with the related forward mortgage loan sale commitments. Additionally, we have elected to account for loans repurchased due to breaches of representations and warranties at fair value.

Residential mortgage loans are valued based on quoted market prices, where available, prices for other traded mortgage loans with similar characteristics, and purchase commitments and bid information received from market participants. The prices are adjusted as necessary to include the embedded servicing value in the loans and to take into consideration the specific characteristics of certain loans that are priced based on the pricing of similar loans. These adjustments represent unobservable inputs to the valuation but are not considered significant given the relative insensitivity of the value to changes in these inputs to the fair value of the loans. Accordingly, the majority of residential mortgage loans held for sale are classified as Level 2. Interest income on these loans is recognized in "Loans held for sale" line item in the Consolidated Statements of Income. In addition, this category also includes repurchased and temporarily unsalable residential mortgage loans that are included in "Loans, net of unearned income" on the balance sheet. These loans are repurchased due to a breach of representations and warranties in the loan sales agreement and typically occur after the loan is in default. The temporarily unsalable loans have an origination defect that makes them currently unable to be sold into the performing loan sales market. Because transaction details regarding sales of this type of loan are often unavailable, unobservable bid information from brokers and investors is heavily relied upon. Accordingly, based on the significance of unobservable inputs, these loans are classified as Level 3.

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), as well as current prices for mortgage securities and investor supplied prices. These derivative contracts, which are classified as Level 2 instruments, include interest rate swaps, certain options, cross currency swaps, credit default swaps, and forward mortgage loan sale commitments.

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 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.

As a result of the First Niagara acquisition, we acquired First Niagara's residential mortgage business, which included interest rate lock commitments. These instruments are accounted for as a derivative and valued using models containing unobservable significant inputs. For valuation purposes, the loan amount associated with each interest rate lock commitment is adjusted by its modeled pull through which is an unobservable input which is defined as the percentage of loans that will close prior to the expiration of the rate lock commitment, as adjusted for approved changes to the terms. Based on the significance of unobservable inputs, these instruments are classified as Level 3.

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.

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, 2016, and December 31, 2015.

December 31, 2016

in millions

	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Trading account assets:				
U.S. Treasury, agencies and corporations	— \$	655	— \$	655
States and political subdivisions	—	8	—	8
Collateralized mortgage obligations	—	—	—	—
Other mortgage-backed securities	—	113	—	113
Other securities	—	73	—	73
Total trading account securities	—	849	—	849
Commercial loans	—	18	—	18
Total trading account assets	—	867	—	867
Securities available for sale:				
U.S. Treasury, agencies and corporations	—	184	—	184
States and political subdivisions	—	11	—	11
Agency residential collateralized mortgage obligations ^(a)	—	16,408	—	16,408
Agency residential mortgage-backed securities ^(a)	—	1,846	—	1,846
Agency commercial mortgage-backed securities	—	1,743	—	1,743
Other securities	\$ 3	— \$	17	20
Total securities available for sale	3	20,192	17	20,212
Other investments:				
Principal investments:				
Direct	—	—	27	27
Indirect (measured at NAV) ^(b)	—	—	—	158
Total principal investments	—	—	27	185
Equity and mezzanine investments:				
Indirect (measured at NAV) ^(b)	—	—	—	6
Total equity and mezzanine investments	—	—	—	6
Total other investments	—	—	27	191
Loans, net of unearned income	—	—	—	—
Loans held for sale	—	62	—	62
Derivative assets:				
Interest rate	—	923	7	930
Foreign exchange	114	9	—	123
Commodity	—	176	—	176
Credit	—	—	1	1
Other	—	2	2	4
Derivative assets	114	1,110	10	1,234
Netting adjustments ^(c)	—	—	—	(431)
Total derivative assets	114	1,110	10	803
Accrued income and other assets	—	8	—	8
Total assets on a recurring basis at fair value	\$ 117	\$ 22,239	\$ 54	\$ 22,143
LIABILITIES MEASURED ON A RECURRING BASIS				
Bank notes and other short-term borrowings:				
Short positions	\$ 192	\$ 616	— \$	808
Derivative liabilities:				
Interest rate	—	737	—	737
Foreign exchange	102	11	—	113
Commodity	—	165	—	165
Credit	—	4	—	4
Other	—	1	—	1
Derivative liabilities	102	918	—	1,020
Netting adjustments ^(a)	—	—	—	(384)
Total derivative liabilities	102	918	—	636
Accrued expense and other liabilities	—	14	—	14
Total liabilities on a recurring basis at fair value	\$ 294	\$ 1,548	— \$	1,458

- (a) "Collateralized mortgage obligations" and "Other mortgage-back securities" were renamed to "Agency residential collateralized mortgage obligations" and "Agency residential mortgage-backed securities", respectively, as of December 31, 2016. There was no reclassification of previously reported balances.
- (b) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.
- (c) 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.

December 31, 2015

in millions

	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
Agency residential collateralized mortgage obligations ^(a)	—	11,995	—	11,995
Agency residential mortgage-backed securities ^(a)	—	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 (measured at NAV) ^(b)	—	—	—	235
Total principal investments	—	19	50	304
Equity and mezzanine investments:				
Indirect (measured at NAV) ^(b)	—	—	—	8
Total equity and mezzanine investments	—	—	—	8
Total other investments	—	19	50	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 ^(c)	—	—	—	(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	\$ 85	\$ 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) "Collateralized mortgage obligations" and "Other mortgage-back securities" were renamed to "Agency residential collateralized mortgage obligations" and "Agency residential mortgage-backed securities", respectively, as of December 31, 2016. There was no reclassification of previously reported balances.

(b) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

- (c) 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.

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, 2016, and December 31, 2015. 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	Sales	Settlements	Transfers Other	Transfers into Level 3 ^(e)	Transfers out of Level 3 ^(e)	End of Period Balance ^(g)	Unrealized Gains (Losses) Included in Earnings
Year ended December 31, 2016										
Securities available for sale										
Other securities	\$ 17	—	—	—	—	—	—	—	\$ 17	—
Other investments										
Principal investments										
Direct	50	\$ 16 ^(c)	—	\$ (39)	—	—	—	—	27	\$ 2 ^(c)
Other indirect	—	—	—	(20)	—	—	\$ 20	—	—	(1) ^(c)
Derivative instruments ^(b)										
Interest rate	16	4 ^(d)	1	—	—	—	\$ 9 ^(f)	\$ (23) ^(f)	7	—
Credit	1	(13) ^(d)	1	—	\$ 12	—	—	—	1	—
Other ^(a)	—	—	\$ 5	—	—	\$ (3)	—	—	2	—
Year ended December 31, 2015										
Securities available for sale										
Other securities	\$ 10	—	\$ 7	—	—	—	—	—	\$ 17	—
Other investments										
Principal investments										
Direct	102	\$ 23 ^(c)	5	\$ (61)	—	—	—	\$ (19)	50	\$ 3 ^(c)
Equity and mezzanine investments										
Direct	—	2 ^(c)	—	(2)	—	—	—	—	—	2 ^(c)
Derivative instruments ^(b)										
Interest rate	13	2 ^(d)	1	(1)	—	\$ 10 ^(f)	—	(9) ^(f)	16	—
Credit	2	(12) ^(d)	—	—	\$ 11	—	—	—	1	—

- (a) Amounts represent Level 3 interest rate lock commitments.
- (b) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.
- (c) Realized and unrealized gains and losses on principal investments are reported in “net gains (losses) from principal investing” on the income statement. Realized and unrealized losses on private equity and mezzanine investments are reported in “other income” on the income statement.
- (d) Realized and unrealized gains and losses on derivative instruments are reported in “corporate services income” and “other income” on the income statement.
- (e) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.
- (f) Certain derivatives previously classified as Level 2 were transferred to Level 3 because Level 3 unobservable inputs became significant. Certain derivatives previously classified as Level 3 were transferred to Level 2 because Level 3 unobservable inputs became less significant.
- (g) There were no issuances for the years ended December 31, 2016, and December 31, 2015.

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, 2016, and December 31, 2015. The following table presents our assets measured at fair value on a nonrecurring basis at December 31, 2016, and December 31, 2015:

in millions	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS								
Impaired loans	—	—	\$ 11	\$ 11	—	—	—	—
Loans held for sale ^(a)	—	—	—	—	—	—	—	—
Accrued income and other assets	—	—	11	11	—	—	\$ 7	\$ 7
Total assets on a nonrecurring basis at fair value	—	—	\$ 22	\$ 22	—	—	\$ 7	\$ 7

(a) During 2016, we transferred \$35 million of commercial and residential loans and leases at their current fair value from held-for-sale status to the held-to-maturity portfolio, compared to \$62 million during 2015.

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.

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.

Commercial loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming commercial 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, 2016, or December 31, 2015.

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 commercial 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 for which 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 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. We chose to utilize a qualitative assessment in our annual goodwill impairment testing performed during the fourth quarter of 2016. For additional information on the results of recent goodwill impairment testing, see Note 11 (“Goodwill and Other Intangible Assets”).

We did not choose the qualitative approach for our 2015 goodwill impairment test. Fair value of our reporting units was 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 relied 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 11 (“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 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 11.

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.
- **Residential 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 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, 2016, and December 31, 2015, along with the valuation techniques used, are shown in the following table:

December 31, 2016 <i>Dollars in millions</i>		Fair Value of Level 3 Assets	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Recurring					
Other investments — principal investments — direct:	\$	27	Individual analysis of the condition of each investment		
Debt instruments				EBITDA multiple	6.30 - 7.00 (6.50)
Equity instruments of private companies				EBITDA multiple (where applicable)	N/A (6.3)
Nonrecurring					
Impaired loans		11	Fair value of underlying collateral	Discount	00.00 - 70.00% (46.00%)
December 31, 2015 <i>dollars in millions</i>					
Recurring					
Other investments — principal investments — direct:	\$	50	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%)

(a) Impaired loans are less than \$1 million at December 31, 2015.

Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at December 31, 2016, and December 31, 2015, are shown in the following table.

	December 31, 2016						
	Carrying Amount	Fair Value					Total
<i>in millions</i>		Level 1	Level 2	Level 3	Measured at NAV	Netting Adjustment	
ASSETS							
Cash and short-term investments ^(a)	\$ 3,452	\$ 3,452	—	—	—	—	\$ 3,452
Trading account assets ^(b)	867	—	\$ 867	—	—	—	867
Securities available for sale ^(b)	20,212	3	20,192	\$ 17	—	—	20,212
Held-to-maturity securities ^(c)	10,232	—	10,007	—	—	—	10,007
Other investments ^(b)	738	—	—	569	\$ 164	—	733
Loans, net of allowance ^(d)	85,180	—	—	83,285	—	—	83,285
Loans held for sale ^(b)	1,104	—	62	1,042	—	—	1,104
Derivative assets ^(b)	803	114	1,110	10	—	\$ (431) ^(f)	803
LIABILITIES							
Deposits with no stated maturity ^(a)	\$ 93,906	—	\$ 93,906	—	—	—	\$ 93,906
Time deposits ^(c)	10,181	—	10,267	—	—	—	10,267
Short-term borrowings ^(a)	2,310	\$ 192	2,118	—	—	—	2,310
Long-term debt ^(c)	12,384	12,386	304	—	—	—	12,690
Derivative liabilities ^(b)	636	102	918	—	—	\$ (384) ^(f)	636

	December 31, 2015							
		Fair Value						
<i>in millions</i>	Carrying Amount	Level 1	Level 2	Level 3	Measured at NAV	Netting Adjustment	Total	
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	393	\$ 243	—	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 ^(c)	5,519	\$ —	5,575	—	—	—	5,575	
Short-term borrowings ^(a)	905	—	905	—	—	—	905	
Long-term debt ^(c)	10,184	9,987	420	—	—	—	10,407	
Derivative liabilities ^(b)	632	116	1,009	\$ 1	—	\$ (494) ^(f)	632	

Valuation Methods and Assumptions

- 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.
- 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.
- 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.
- 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.

- (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 2015 and 2016, 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 \$1.5 billion (\$1.3 billion at fair value) at December 31, 2016, and \$1.8 billion (\$1.5 billion at fair value) at December 31, 2015;
- Portfolio loans at fair value of \$3 million at December 31, 2016, and \$4 million at December 31, 2015.

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.

Residential real estate mortgage loans. Residential real estate mortgage loans with carrying amounts of \$5.5 billion at December 31, 2016, and \$2.2 billion at December 31, 2015, 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.

8. Securities

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, in millions	2016				2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE								
U.S. Treasury, Agencies, and Corporations	\$ 188	—	\$ 4	\$ 184	—	—	—	—
States and political subdivisions	11	—	—	11	\$ 14	—	—	\$ 14
Agency residential collateralized mortgage obligations ^(a)	16,652	\$ 31	275	16,408	12,082	\$ 51	138	11,995
Agency residential mortgage-backed securities ^(a)	1,857	6	17	1,846	2,193	11	15	2,189
Agency commercial mortgage-backed securities	1,778	—	35	1,743	—	—	—	—
Other securities	21	—	1	20	21	—	1	20
Total securities available for sale	\$ 20,507	\$ 37	\$ 332	\$ 20,212	\$ 14,310	\$ 62	\$ 154	\$ 14,218
HELD-TO-MATURITY SECURITIES								
Agency residential collateralized mortgage obligations ^(a)	\$ 8,404	\$ 1	\$ 173	\$ 8,232	\$ 4,174	\$ 5	\$ 50	\$ 4,129
Agency residential mortgage-backed securities ^(a)	629	—	5	624	703	—	4	699
Agency commercial mortgage-backed securities	1,184	1	49	1,136	—	—	—	—
Other securities	15	—	—	15	20	—	—	20
Total held-to-maturity securities	\$ 10,232	\$ 2	\$ 227	\$ 10,007	\$ 4,897	\$ 5	\$ 54	\$ 4,848

(a) “Collateralized mortgage obligations” and “Other mortgage-back securities” were renamed to “Agency residential collateralized mortgage obligations” and “Agency residential mortgage-backed securities” in September 2016. There was no reclassification of previously reported balances.

The following table summarizes our securities that were in an unrealized loss position as of December 31, 2016, and December 31, 2015:

in millions	Duration of Unrealized Loss Position				Total	
	Less than 12 Months		12 Months or Longer			
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2016						
Securities available for sale:						
U.S. Treasury, Agencies, and Corporations	\$ 182	\$ 4	—	—	\$ 182	\$ 4
Agency residential collateralized mortgage obligations	12,345	231	\$ 1,410	\$ 44	13,755	275
Agency residential mortgage-backed securities	1,452	17	—	—	1,452	17
Agency commercial mortgage-backed securities	1,482	35	—	—	1,482	35
Other securities ^(a)	2	—	3	1	5	1
Held-to-maturity securities:						
Agency residential collateralized mortgage obligations	7,028	156	518	17	7,546	173
Agency residential mortgage-backed securities	547	5	—	—	547	5
Agency commercial mortgage-backed securities	996	49	—	—	996	49
Other securities ^(b)	4	—	—	—	4	—
Total temporarily impaired securities	\$ 24,038	\$ 497	\$ 1,931	\$ 62	\$ 25,969	\$ 559
December 31, 2015						
Securities available for sale:						
Agency residential collateralized mortgage obligations	\$ 5,190	\$ 43	\$ 3,206	\$ 95	\$ 8,396	\$ 138
Agency residential mortgage-backed securities	1,670	15	—	—	1,670	15
Other securities ^(a)	—	—	3	1	3	1
Held-to-maturity securities:						
Agency residential collateralized mortgage obligations	1,793	16	1,320	34	3,113	50
Agency residential 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

(a) Gross unrealized losses totaled less than \$1 million for other securities available for sale at December 31, 2016, and December 31, 2015.

(b) Gross unrealized losses totaled less than \$1 million for other securities held to maturity at December 31, 2016, and December 31, 2015.

At December 31, 2016, we had \$275 million of gross unrealized losses related to 389 fixed-rate agency residential CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4.19 years at December 31, 2016. We also had \$17 million of gross unrealized losses related to 230 agency residential mortgage-backed securities positions, which had a weighted-average maturity of 3.76 years at December 31, 2016. 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 did not have any impairment losses recognized in earnings for the year ended December 31, 2016.

in millions

Balance at December 31, 2015	\$	4
Impairment recognized in earnings		—
Balance at December 31, 2016	<u>\$</u>	<u>4</u>

Realized gains and losses related to securities available for sale were as follows:

Year ended December 31, <i>in millions</i>	2016 ^(a)	2015	2014 ^(a)
Realized gains	— \$	1	—
Realized losses	—	1	—
Net securities gains (losses)	<u>—</u>	<u>—</u>	<u>—</u>

(a) Realized gains and losses totaled less than \$1 million for the years ended December 31, 2016, and December 31, 2014.

At December 31, 2016, securities available-for-sale and held-to-maturity securities totaling \$8.6 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.

The following table shows securities by remaining maturity. CMOs and other mortgage-backed securities in the available-for-sale and held-to-maturity portfolios 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, 2016 <i>in millions</i>	Securities Available for Sale		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 192	\$ 193	\$ 54	\$ 54
Due after one through five years	18,356	18,109	6,892	6,768
Due after five through ten years	1,947	1,898	2,678	2,607
Due after ten years	12	12	608	578
Total	<u>\$ 20,507</u>	<u>\$ 20,212</u>	<u>\$ 10,232</u>	<u>\$ 10,007</u>

9. 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, 2016, after taking into account the effects of bilateral collateral and master netting agreements, we had \$85 million of derivative assets and \$66 million of derivative liabilities that relate to contracts entered into for hedging purposes. 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 \$718 million and derivative liabilities of \$570 million that were not designated as hedging instruments.

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; and differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. We utilize derivatives that have been designated as part of a hedge relationship in accordance with the applicable accounting guidance to manage net interest income and EVE to within our stated risk tolerances. 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.

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, 2016, 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.

We also enter into derivative contracts for other purposes, including:

- interest rate swap, cap, and floor contracts entered into generally to accommodate the needs of commercial loan clients;
- energy and base metal swap and option contracts entered into to accommodate the needs of clients;
- foreign exchange forward and option contracts entered into primarily to accommodate the needs of clients; and
- 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.

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, 2016, and December 31, 2015. The change in the notional amounts of these derivatives by type from December 31, 2015, to December 31, 2016, indicates the volume of our derivative transaction activity during 2016. 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:

in millions	December 31, 2016				December 31, 2015			
	Notional Amount	Fair Value		Notional Amount	Fair Value			
		Derivative Assets	Derivative Liabilities		Derivative Assets	Derivative Liabilities		
Derivatives designated as hedging instruments:								
Interest rate	\$ 24,237	\$ 189	\$ 94	\$ 18,917	\$ 257	\$ 15		
Foreign exchange	282	6	4	312	20	—		
Total	24,519	195	98	19,229	277	15		
Derivatives not designated as hedging instruments:								
Interest rate	55,315	741	643	43,965	627	548		
Foreign exchange	6,230	117	109	6,454	131	124		
Commodity	1,474	176	165	1,144	444	433		
Credit	360	1	4	632	6	6		
Other ^(a)	390	4	1	—	—	—		
Total	63,769	1,039	922	52,195	1,208	1,111		
Netting adjustments ^(b)	—	(431)	(384)	—	(866)	(494)		
Net derivatives in the balance sheet	88,288	803	636	71,424	619	632		
Other collateral ^(c)	—	(21)	(97)	—	(91)	(204)		
Net derivative amounts	\$ 88,288	\$ 782	\$ 539	\$ 71,424	\$ 528	\$ 428		

- (a) Other derivatives include interest rate lock commitments and forward sale commitments related to our residential mortgage banking activities.
- (b) 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.
- (c) 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 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, 2016, 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, 2016.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the years ended December 31, 2016, and December 31, 2015, and where they are recorded on the income statement.

<i>in millions</i>	Year Ended December 31, 2016				
	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 rate	Other income	\$ (95)	Long-term debt	Other income	\$ 97 ^(a)
Interest rate	Interest expense – Long-term debt	96			
Total		\$ 1			\$ 97
<i>in millions</i>	Year Ended December 31, 2015				
	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 rate	Other income	\$ (20)	Long-term debt	Other income	\$ 21 ^(a)
Interest rate	Interest expense – Long-term debt	123			
Total		\$ 103			\$ 21

- (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, 2016, 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, 2016.

Considering the interest rates, yield curves, and notional amounts as of December 31, 2016, we would expect to reclassify an estimated \$13 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 \$3 million of net losses related to terminated cash flow hedges from AOCI to income during the next 12 months. As of December 31, 2016, the maximum length of time over which we hedge forecasted transactions is 12 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, 2016, AOCI reflected unrecognized after-tax gains totaling \$40 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, 2016. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the year ended December 31, 2016.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the years ended December 31, 2016, and December 31, 2015, 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, 2016					
<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 (Losses) Reclassified From OCI Into Income (Effective Portion)	Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)	Net Gains (Losses) Recognized in Income (Ineffective Portion)
Cash Flow Hedges					
Interest rate	\$ 29	Interest income – Loans	\$ 85	Other income	—
Interest rate	—	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	(2)	Other Income	—	Other income	—
Total	<u>\$ 28</u>		<u>\$ 81</u>		<u>—</u>
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 (Losses) Reclassified From OCI Into Income (Effective Portion)	Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)	Net Gains (Losses) Recognized in Income (Ineffective 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	<u>\$ 139</u>		<u>\$ 94</u>		<u>—</u>

The after-tax change in AOCI resulting from cash flow and net investment hedges is as follows:

<i>in millions</i>	December 31, 2015	2016 Hedging Activity	Reclassification of Gains to Net Income	December 31, 2016
AOCI resulting from cash flow and net investment hedges	\$ 20	\$ 17	\$ (51)	(14)

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.

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, 2016, December 31, 2015, and December 31, 2014, and where they are recorded on the income statement.

<i>Year ended December 31, in millions</i>	2016				2015			2014		
	Corporate Services Income	Consumer Mortgage Income ^(a)	Other Income	Total	Corporate Services Income	Other Income	Total	Corporate Services Income	Other Income	Total
NET GAINS (LOSSES)										
Interest rate	\$ 30	—	\$ 1	\$ 31	\$ 28	—	\$ 28	\$ 16	—	\$ 16
Foreign exchange	40	—	—	40	36	—	36	34	—	34
Commodity	4	—	—	4	5	—	5	6	—	6
Credit	1	—	(16)	(15)	(1)	(15)	(16)	—	(21)	(21)
Other	—	\$ 1	—	1	—	—	—	—	—	—
Total net gains (losses)	\$ 75	\$ 1	\$ (15)	\$ 61	\$ 68	\$ (15)	\$ 53	\$ 56	\$ (21)	\$ 35

- (a) As a result of the First Niagara acquisition, we began recognizing net gains (losses) on other derivatives related to our residential mortgage banking activities in “consumer mortgage income” in 2016.

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 \$155 million at December 31, 2016, and \$377 million at December 31, 2015. The cash collateral netted against derivative liabilities totaled \$108 million at December 31, 2016, and \$5 million at December 31, 2015. 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, 2016, we posted \$448 million of cash collateral with clearing organizations and held \$59 million of cash collateral from clearing organizations. At December 31, 2015, we posted \$143 million of cash collateral with clearing organizations and held \$6 million of cash collateral from clearing organizations. This additional cash collateral is included in “short-term investments” and “NOW and money market deposit accounts” on the balance sheet.

The following table summarizes our largest exposure to an individual counterparty at the dates indicated:

<i>December 31, in millions</i>	2016	2015
Largest gross exposure (derivative asset) to an individual counterparty	\$ 109	\$ 158
Collateral posted by this counterparty	42	85
Derivative liability with this counterparty	86	74
Collateral pledged to this counterparty	22	—
Net exposure after netting adjustments and collateral	3	(1)

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>	2016	2015
Interest rate	\$ 782	\$ 628
Foreign exchange	62	66
Commodity	110	298
Credit	—	4
Other	4	—
Derivative assets before collateral	958	996
Less: Related collateral	155	377
Total derivative assets	\$ 803	\$ 619

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, 2016, we had gross exposure of \$536 million to broker-dealers and banks. We had net exposure of \$330 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of \$287 million after considering \$43 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 \$6 million at December 31, 2016, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2016, we had gross exposure of \$531 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 \$473 million on our derivatives with these counterparties after the application of master netting agreements, collateral, and the related reserve.

Credit Derivatives

We are a buyer and, under limited circumstances, may be a 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.

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of December 31, 2016, and December 31, 2015. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

December 31, in millions	2016			2015		
	Purchased	Sold	Net	Purchased	Sold	Net
Single-name credit default swaps	\$ (2)	—	\$ (2)	\$ (3)	—	\$ (3)
Traded credit default swap indices	(1)	—	(1)	4	—	4
Other ^(a)	—	—	—	—	\$ (1)	(1)
Total credit derivatives	\$ (3)	—	\$ (3)	\$ 1	\$ (1)	—

(a) As of December 31, 2016, 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.

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at December 31, 2016, and December 31, 2015. 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, dollars in millions	2016			2015		
	Notional Amount	Average Term (Years)	Payment / Performance Risk	Notional Amount	Average Term (Years)	Payment / Performance Risk
Other	\$ 4	6.49	17.93%	\$ 5	2.67	14.46%
Total credit derivatives sold	\$ 4	—	—	\$ 5	—	—

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, 2016, KeyBank’s rating was “A3” with Moody’s and “A-” with S&P, and KeyCorp’s rating was “Baa1” with Moody’s and “BBB+” with S&P. As of December 31, 2016, 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 \$199 million, which includes \$155 million in derivative assets and \$354 million in derivative liabilities. We had \$196 million in cash and securities collateral posted to cover those positions as of December 31, 2016. The aggregate fair value of all derivative contracts with credit risk contingent features held by KeyCorp as of December 31, 2016, that were in a net liability position totaled \$6 million, which consists solely of derivative liabilities. We had \$6 million in collateral posted to cover those positions as of December 31, 2016.

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, 2016, and December 31, 2015. 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, 2016, and December 31, 2015, and take into account all collateral already posted. A similar calculation was performed for KeyCorp, and no additional collateral would have been required at December 31, 2016, or December 31, 2015. 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, in millions	2016		2015	
	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	\$ 2	\$ 2
Two rating downgrades	2	2	2	2
Three rating downgrades	2	2	4	4

KeyBank’s long-term senior unsecured credit rating was four ratings above noninvestment grade at Moody’s and S&P as of December 31, 2016, and December 31, 2015. If KeyBank’s ratings had been downgraded below investment grade as of December 31, 2016, and December 31, 2015, payments of up to \$4 million and \$5 million, respectively, 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, 2016, and December 31, 2015, 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.

10. Mortgage Servicing Assets

We originate and periodically sell commercial and residential 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. Commercial and residential mortgage servicing assets are recorded as a component of “accrued income and other assets” on the balance sheet.

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.”

Commercial

Changes in the carrying amount of commercial mortgage servicing assets are summarized as follows:

Year ended December 31, <i>in millions</i>	2016	2015
Balance at beginning of period	\$ 322	\$ 323
Servicing retained from loan sales	80	55
Purchases	41	38
Amortization	(87)	(94)
Balance at end of period	\$ 356	\$ 322
Fair value at end of period	\$ 459	\$ 423

The fair value of commercial mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the commercial mortgage 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 commercial mortgage servicing assets at December 31, 2016, and December 31, 2015, along with the valuation techniques, are shown in the following table:

December 31, 2016 <i>dollars in millions</i>	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Commercial mortgage servicing assets	Discounted cash flow	Expected defaults	1.00 - 3.00% (1.40%)
		Residual cash flows discount rate	7.00 - 12.00% (8.00%)
		Escrow earn rate	1.10 - 3.00% (2.40%)
		Servicing cost	\$150 - \$2,700 (\$1,124)
		Loan assumption rate	0.00 - 3.00% (1.13%)
		Percentage late	0.00 - 2.00% (0.34%)
December 31, 2015 <i>dollars in millions</i>	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Commercial mortgage servicing assets	Discounted cash flow	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%)

If these economic assumptions change or prove incorrect, the fair value of commercial mortgage servicing assets may also change. Expected credit losses, escrow earn rates, and discount rates are critical to the valuation of commercial mortgage servicing assets. Estimates of these assumptions are based on how a market participant would view the respective rates and reflect historical data associated with the commercial mortgage 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 commercial 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 commercial mortgage servicing assets. Prepayment activity on commercial serviced loans does not significantly impact the valuation of our commercial mortgage servicing assets. Unlike residential mortgages, commercial mortgages experience significantly lower prepayments due to certain contractual restrictions impacting the borrower's ability to prepay the mortgage.

We have elected to account for commercial mortgage servicing assets using the amortization method. The amortization of commercial mortgage servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of commercial mortgage servicing assets for each period, as shown in the table at the beginning of this note, is recorded as a reduction to contractual fee income. The contractual fee income from servicing commercial mortgage loans totaled \$139 million for the year ended December 31, 2016, \$142 million for the year ended December 31, 2015, and \$144 million for the year ended December 31, 2014. This fee income was partially offset by \$87 million of amortization for the year ended December 31, 2016, \$94 million for the year ended December 31, 2015, and \$98 million for the year ended

December 31, 2014. Both the contractual fee income and the amortization are recorded, net, in “mortgage servicing fees” on the income statement.

Residential

With the First Niagara acquisition, we acquired residential mortgage servicing assets with a fair value of \$28 million as of the Acquisition Date. Activity for the year ended December 31, 2016, represents the period from the acquisition date of August 1, 2016, through December 31, 2016.

Changes in the carrying amount of residential mortgage servicing assets are summarized as follows:

<i>in millions</i>	2016
Balance at beginning of period	—
Servicing retained from loan sales	\$ 2
Purchases	28
Amortization	(2)
Balance at end of period	\$ 28
Fair value at end of period	\$ 33

The fair value of residential mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the residential mortgage 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 residential mortgage servicing assets at December 31, 2016, along with the valuation techniques, are shown in the following table:

December 31, 2016			
<i>dollars in millions</i>	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Residential mortgage servicing assets	Discounted cash flow	Prepayment speed	7.79 - 18.61% (9.42%)
		Discount rate	8.50 - 11.00% (8.55%)
		Servicing cost	\$76 - \$3,335 (\$83.04)

If these economic assumptions change or prove incorrect, the fair value of residential mortgage servicing assets may also change. Prepayment speed, discount rates, and servicing cost are critical to the valuation of residential mortgage servicing assets. Estimates of these assumptions are based on how a market participant would view the respective rates and reflect historical data associated with the residential mortgage loans, industry trends, and other considerations. Actual rates may differ from those estimated due to changes in a variety of economic factors. An increase in the prepayment speed would cause a negative impact on the fair value of our residential mortgage servicing assets. An increase in the assigned discount rates and servicing cost assumptions would cause a decrease in the fair value of our residential mortgage servicing assets.

We have elected to account for residential mortgage servicing assets using the amortization method. The amortization of residential mortgage servicing assets is determined in proportion to, and over the period of, the estimated net residential servicing income. The amortization of residential mortgage servicing assets for December 31, 2016, as shown in the table above, is recorded as a reduction to contractual fee income. The contractual fee income from servicing residential mortgage loans totaled \$6 million for the year ended December 31, 2016. This fee income was offset by \$2 million of amortization for the year ended December 31, 2016. Both the contractual fee income and the amortization are recorded, net, in “mortgage servicing fees” on the income statement.

11. 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 2016, we conducted a qualitative analysis and concluded that it was not more likely than not that the fair values of our reporting units were less than

their respective carrying values. As such, goodwill was not impaired. During the latest quantitative assessment in 2015, we determined that the estimated fair value of the Key Community Bank unit was 52% greater than its carrying amount. During the latest quantitative assessment in 2015, we determined that the estimated fair value of the Key Corporate Bank unit was 27% greater than its carrying amount. 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 2016 and 2015, 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 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 Bank	Total
BALANCE AT DECEMBER 31, 2014	\$ 979	\$ 78	\$ 1,057
Tax adjustment resulting from Pacific Crest Securities acquisition	—	3	3
BALANCE AT DECEMBER 31, 2015	979	81	1,060
Acquisition of First Niagara	1,109	277	1,386
BALANCE AT DECEMBER 31, 2016	\$ 2,088	\$ 358	\$ 2,446

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 14 (“Acquisition, Divestiture, and Discontinued Operations”).

During 2016, as a result of the acquisition of First Niagara, we recorded an increase of \$1.1 billion of goodwill in the Key Community Bank segment and an increase of \$277 million of goodwill in the Key Corporate Bank segment. Additional information regarding the acquisition is provided in Note 2 (“Business Combination”).

As of December 31, 2016, we expected goodwill in the amount of \$647 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, 2016, December 31, 2015, and December 31, 2014.

The following table shows the gross carrying amount and the accumulated amortization of intangible assets subject to amortization:

December 31, <i>in millions</i>	2016		2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Core deposit intangibles	\$ 461	\$ 125	\$ 105	\$ 91
PCCR intangibles	152	110	136	91
Other intangible assets ^(a)	74	68	76	70
Total	\$ 687	\$ 303	\$ 317	\$ 252

(a) Carrying amount and accumulated amortization excludes \$18 million each at December 31, 2016, and December 31, 2015, 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 5 years. As a result of the acquisition of First Niagara on August 1, 2016, intangible assets were recognized at the acquisition date fair value of \$385 million. The core deposit intangible asset recognized as part of the First Niagara merger of

\$356 million is being amortized over its estimated useful life of approximately ten years utilizing an accelerated method. The commercial purchased credit card relationships recognized as part of the First Niagara merger are being amortized over their estimated useful life of approximately six years utilizing an accelerated method. The consumer purchased credit card relationships recognized as part of the First Niagara merger are being amortized over their estimated useful life of approximately nine years utilizing an accelerated method.

Intangible asset amortization expense was \$55 million for 2016, \$36 million for 2015, and \$39 million for 2014. Estimated amortization expense for intangible assets for each of the next five years is as follows: 2017 — \$84 million; 2018 — \$70 million; 2019 — \$57 million; 2020 — \$46 million; and 2021 — \$39 million.

12. 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.

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. KCC and KPP principal investments are newly assessed VIEs under the amended consolidation guidance. Additional information on the amended consolidation guidance is provided in Note 1 ("Summary of Significant Accounting Policies").

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 \$1.2 billion and \$1.1 billion of investments in LIHTC operating partnerships at December 31, 2016, and December 31, 2015, 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, 2016, and December 31, 2015, we had liabilities of \$462 million and \$410 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, 2016, and December 31, 2015. As these investments represent unconsolidated VIEs, the assets and liabilities of the investments themselves are not recorded on our balance sheet.

<i>in millions</i>	Unconsolidated VIEs		
	Total Assets	Total Liabilities	Maximum Exposure to Loss
December 31, 2016			
LIHTC investments	\$ 4,814	\$ 2,003	\$ 1,465
December 31, 2015			
LIHTC investments	\$ 4,914	\$ 1,368	\$ 1,332

We amortize our LIHTC investments over the period that we expect to receive the tax benefits. In 2016, we recognized \$131 million of amortization and \$144 million of tax credits associated with these investments within “income taxes” on our income statement. 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.

Principal investments. Through our principal investing entity, KCC, we have made investments in private equity funds engaged in venture- and growth-oriented investing. As a limited partner to these funds, KCC records these investments at fair value and receives distributions from the funds in accordance with the funds’ partnership agreements. We are not the primary beneficiary of these investments as we do not hold the power to direct the activities that most significantly affect the funds’ economic performance. Such power rests with the funds’ general partners. In addition, we neither have the obligation to absorb the funds’ expected losses nor the right to receive their residual returns. Our voting rights are also disproportionate to our economic interests, and substantially all of the funds’ activities are conducted on behalf of investors with disproportionately few voting rights. Because we are not the primary beneficiary of these investments, we do not consolidate them.

Our maximum exposure to loss associated with indirect principal investments consists of the investments’ fair value plus any unfunded equity commitments. The fair value of our indirect principal investments totaled \$158 million and \$235 million at December 31, 2016, and December 31, 2015, respectively. These investments are recorded in “other investments” on our balance sheet. Additional information on indirect principal investments is provided in Note 7 (“Fair Value Measurements”). The table below reflects the size of the private equity funds in which KCC was invested as well as our maximum exposure to loss in connection with these investments at December 31, 2016.

<i>in millions</i>	Unconsolidated VIEs		
	Total Assets	Total Liabilities	Maximum Exposure to Loss
December 31, 2016			
KCC indirect investments	\$ 32,755	\$ 201	\$ 195

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 partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance. Our assets associated with these unconsolidated VIEs totaled \$178 million at December 31, 2016, and \$176 million at December 31, 2015. These assets are recorded in “accrued income and other assets,” “other investments,” and “securities available for sale” on our balance sheet. We had liabilities totaling \$4 million associated with these unconsolidated VIEs at December 31, 2016, and less than \$1 million at December 31, 2015. These liabilities are recorded in “accrued expenses and other liabilities” on our balance sheet.

Consolidated VIEs. Through our principal investing entity, KPP, we have formed and funded operating entities that provide management and other related services to our investment company funds, which directly invest in portfolio companies. In return for providing services to our direct investment funds, these entities’ receive a minority equity interest in the funds. This minority equity ownership is recorded at fair value on the entities’ financial statements. Additional information on our direct principal investments is provided in Note 7 (“Fair Value Measurements”). While other equity investors manage the daily operations of these entities, we retain the power, through voting rights, to direct the activities of the entities that most significantly impact their economic performance. In addition, we have the obligation to absorb losses and the right to receive residual returns that could potentially be significant to these entities. As a result, we have determined that we are the primary beneficiary of these funds and have consolidated them since formation. The assets of these KPP entities that can only be used to settle the entities’ obligations totaled \$1 million at December 31, 2016, and \$7 million at December 31, 2015. These assets are recorded in “cash and due from banks” and “accrued income and other assets” on our balance sheet. The entities had no liabilities at both December 31, 2016, and December 31, 2015, and other equity investors have no recourse to our general credit.

13. Income Taxes

Income taxes included in the income statement are summarized below. We file a consolidated federal income tax return.

Year ended December 31, in millions	2016	2015	2014
Currently payable:			
Federal	\$ 149	\$ 337	\$ 288
State	19	42	33
Total currently payable	168	379	321
Deferred:			
Federal	13	(69)	16
State	(2)	(7)	(11)
Total deferred	11	(76)	5
Total income tax (benefit) expense ^(a)	\$ 179	\$ 303	\$ 326

- (a) There was no income tax (benefit) expense on securities transactions in 2016, 2015, and 2014. 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 \$18 million in 2016, \$16 million in 2015, and \$17 million in 2014.

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, in millions	2016	2015
Allowance for loan and lease losses	\$ 373	\$ 327
Employee benefits	276	268
Net unrealized securities losses	146	48
Federal net operating losses and credits	130	88
Fair value adjustments	136	—
Non-tax accruals	150	81
State net operating losses and credits	15	5
Other	236	260
Gross deferred tax assets	1,462	1,077
Less: Valuation Allowance	26	—
Total deferred tax assets	1,436	1,077
Leasing transactions	728	651
Fair Value Adjustments	—	2
Other	101	125
Total deferred tax liabilities	829	778
Net deferred tax assets (liabilities) ^(a)	\$ 607	\$ 299

- (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 \$26 million of valuation allowances at December 31, 2016; primarily against federal and state capital loss carryforwards acquired in the First Niagara acquisition.

At December 31, 2016, we have federal net operating loss carryforwards of \$84 million, federal credit carryforwards of \$100 million, and capital loss carryforwards of \$23 million. The federal net operating loss carryforwards are from prior acquisitions by First Niagara and are subject to annual limitations under the tax code and, if not utilized, will expire in the years beginning 2027. We currently expect to fully utilize these losses. The federal credit carryforwards which consist primarily of AMT credit carryforwards, have no expiration under the Internal Revenue Code.

The capital loss carryforwards if not utilized, will expire in 2018 and 2019. Realization of these tax benefits is dependent upon Key’s ability to generate sufficient capital gain in an appropriate tax year to offset the capital loss carryforwards. At this time, generation of sufficient capital gain income is uncertain.

We had state net operating loss carryforwards of \$79 million, and state credit carryforwards of \$12 million, resulting in a net state deferred tax asset of \$15 million. Additionally, we had state capital loss carryforwards of \$3 million. These carryforwards, 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, dollars in millions	2016		2015		2014	
	Amount	Rate	Amount	Rate	Amount	Rate
Income (loss) before income taxes times 35% statutory federal tax rate	\$ 339	35.0%	\$ 428	35.0%	\$ 445	35.0%
Amortization of tax-advantaged investments	88	9.0	81	6.7	69	5.4
Foreign tax adjustments	1	.1	(1)	(.1)	10	.8
Tax-exempt interest income	(25)	(2.6)	(18)	(1.5)	(16)	(1.3)
Corporate-owned life insurance income	(44)	(4.5)	(45)	(3.6)	(41)	(3.2)
State income tax, net of federal tax benefit	11	1.1	22	1.8	15	1.1
Tax credits	(208)	(21.3)	(155)	(12.7)	(134)	(10.5)
Other	17	1.7	(9)	(0.8)	(22)	(1.7)
Total income tax expense (benefit)	\$ 179	18.5%	\$ 303	24.8%	\$ 326	25.6%

Liability for Unrecognized Tax Benefits

The change in our liability for unrecognized tax benefits is as follows:

Year ended December 31, in millions	2016	2015
Balance at beginning of year	\$ 12	\$ 6
Increase for other tax positions of prior years	10	7
Increase from Acquisitions	33	—
Decrease related to tax positions taken in prior years	(2)	(1)
Balance at end of year	\$ 53	\$ 12

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 \$53 million at December 31, 2016, and \$12 million at December 31, 2015. 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 benefit of \$.4 million and \$10.6 million in 2016 and 2014, respectively and net interest expense of \$.6 million in 2015. We recovered state tax penalties of \$.3 million in 2015. We did not recover any state tax penalties in 2016 and 2014. At December 31, 2016, we had an accrued interest payable of \$3 million, compared to \$.9 million at December 31, 2015. Our liability for accrued state tax penalties was \$1 million at both December 31, 2016, and December 31, 2015.

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, 2016, and December 31, 2015, are \$10.1 million and \$2.7 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 2007.

Pre-1988 Bank Reserves acquired in a business combination

Resulting from the First Niagara acquisition, at December 31, 2016, the retained earnings of KeyBank had approximately \$92 million of allocated bad debt deductions for which no income taxes have been recorded. Under current federal law, these reserves are subject to recapture into taxable income if KeyBank, or any successor, fails to maintain its bank status under the

Internal Revenue Code or makes non-dividend distributions or distributions greater than its accumulated earnings and profits. No deferred tax liability has been established as these events are not expected to occur in the foreseeable future.

14. Acquisition, Divestiture, and Discontinued Operations

Acquisition

First Niagara Financial Group, Inc. As previously disclosed, on October 30, 2015, KeyCorp entered into a definitive agreement and plan of merger (“Agreement”) to acquire all of the outstanding capital stock of First Niagara, headquartered in Buffalo, New York. On August 1, 2016, First Niagara merged with and into KeyCorp, with KeyCorp as the surviving entity. The total consideration for the transaction was approximately \$4.0 billion. Under the terms of the Agreement, at the effective time of the merger, each share of First Niagara common stock was 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 was fixed per the Agreement and did 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 were 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, was 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. For more information on the acquisition, see Note 2 (“Business Combination”).

On October 7, 2016, First Niagara Bank merged with and into KeyBank, with KeyBank as the surviving entity. Systems and client conversion also occurred during the fourth quarter of 2016 in connection with the bank merger.

Divestiture

On September 9, 2016, KeyCorp sold to Northwest Bank, a wholly-owned subsidiary of Northwest Bancshares, Inc., 18 branches in the Buffalo, New York market. The branches were divested in connection with the merger between First Niagara and KeyCorp and pursuant to an agreement with the United States Department of Justice and commitments to the Board of Governors of the Federal Reserve System following a customary antitrust review in connection with the merger. The divestiture included \$439 million of loans and \$1.6 billion of deposits associated with the 18 branches.

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.”

The components of “income (loss) from discontinued operations, net of taxes” for the education lending business are as follows:

Year ended December 31, in millions	2016	2015	2014
Net interest income	\$ 26	\$ 36	\$ 77
Provision for credit losses	13	21	21
Net interest income after provision for credit losses	13	15	56
Noninterest income	6	4	(111)
Noninterest expense	17	17	24
Income (loss) before income taxes	2	2	(79)
Income taxes	1	1	(30)
Income (loss) from discontinued operations, net of taxes ^(a)	\$ 1	\$ 1	\$ (49)

- (a) Includes after-tax charges of \$24 million, \$23 million, and \$32 million for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, 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, in millions	2016	2015
Held-to-maturity securities	\$ 1	\$ 1
Portfolio loans at fair value	3	4
Loans, net of unearned income ^(a)	1,562	1,824
Less: Allowance for loan and lease losses	24	28
Net loans	1,541	1,800
Accrued income and other assets	28	30
Total assets	\$ 1,570	\$ 1,831

- (a) At December 31, 2016, and December 31, 2015, 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 were 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, 2016, education loans included 2,163 TDRs with a recorded investment of approximately \$22 million (pre-modification and post-modification). A specifically allocated allowance of \$2 million was assigned to these loans as of December 31, 2016. 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 at December 31, 2014. 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 6 (“Asset Quality”).

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 securitization 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 \$3 million at December 31, 2016.

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 7 ("Fair Value Measurements"). The Working Group reviewed all significant inputs and assumptions and approved the resulting fair values.

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.

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 were reviewed and approved by the Working Group on a quarterly basis. As of December 31, 2015, the portfolio loans accounted for at fair value were valued based on the indicative bids we received when we sold \$162 million of these loans in late 2015.

A quarterly variance analysis reconciled valuation changes in the model used to calculate the portfolio loans accounted for at fair value. This quarterly analysis considered loan run-off, yields, and future default and recovery changes. 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 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.

The following table shows the significant unobservable inputs used to measure the portfolio loans accounted for at fair value at December 31, 2016, and December 31, 2015.

December 31, 2016 <i>dollars in millions</i>	Fair Value of Level 3 Assets and Liabilities	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Portfolio loans accounted for at fair value	\$ 3	Market approach	Indicative bids	84.50-104.00%

December 31, 2015 <i>dollars in millions</i>	Fair Value of Level 3 Assets and Liabilities	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Portfolio loans accounted for at fair value	\$ 4	Market approach	Indicative bids	84.50-104.00%

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, 2016, and December 31, 2015. 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, 2016		December 31, 2015	
	Principal	Fair Value	Principal	Fair Value
Portfolio loans at carrying value				
Accruing loans past due 90 days or more	\$ 22	N/A	\$ 26	N/A
Loans placed on nonaccrual status	5	N/A	8	N/A
Portfolio loans at fair value				
Accruing loans past due 90 days or more	—	—	\$ 1	\$ 1

The following table shows the portfolio loans at fair value and their related contractual amounts at December 31, 2016, and December 31, 2015.

<i>in millions</i>	December 31, 2016		December 31, 2015	
	Contractual Amount	Fair Value	Contractual Amount	Fair Value
ASSETS				
Portfolio loans	\$ 3	\$ 3	\$ 4	\$ 4

The following tables present the assets of the portfolio loans measured at fair value on a recurring basis at December 31, 2016, and December 31, 2015.

December 31, 2016 <i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans	—	—	\$ 3	\$ 3
Total assets on a recurring basis at fair value	—	—	\$ 3	\$ 3

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

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, 2016, and December 31, 2015.

<i>in millions</i>	Portfolio Student Loans Held For Sale	Portfolio Student Loans
Balance at December 31, 2014	—	\$ 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
Settlements	—	(1)
Balance at December 31, 2016 ^(b)	—	\$ 3

(a) Gains (losses) were driven primarily by fair value adjustments.

(b) There were no purchases, sales, issuances, gains (losses) recognized in earnings, transfers into Level 3, or transfers out of Level 3 for the years ended December 31, 2016 and 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>	2016	2015	2014
Net interest income	—	—	\$ 12
Noninterest income	—	—	10
Noninterest expense	—	—	1
Income (loss) before income taxes	—	—	21
Income taxes	—	—	8
Income (loss) from discontinued operations, net of taxes	—	—	\$ 13

There were no discontinued assets or liabilities of Victory for the years ended December 31, 2016, and December 31, 2015.

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.

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>	2016	2015	2014
Noninterest expense	—	—	\$ 4
Income (loss) before income taxes	—	—	(4)
Income taxes	—	—	(1)
Income (loss) from discontinued operations, net of taxes	—	—	\$ (3)

The discontinued assets of Austin included on the balance sheet are as follows. There were no discontinued liabilities for the periods presented below.

December 31, <i>in millions</i>	2016		2015	
Cash and due from banks	\$	15	\$	15
Total assets	\$	15	\$	15

Combined discontinued operations. The combined results of the discontinued operations are as follows:

Year ended December 31, <i>in millions</i>	2016		2015		2014	
Net interest income	\$	26	\$	36	\$	89
Provision for credit losses		13		21		21
Net interest income after provision for credit losses		13		15		68
Noninterest income		6		4		(101)
Noninterest expense		17		17		29
Income (loss) before income taxes		2		2		(62)
Income taxes		1		1		(23)
Income (loss) from discontinued operations, net of taxes ^(a)	\$	1	\$	1	\$	(39)

- (a) Includes after-tax charges of \$24 million, \$23 million, and \$32 million for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, 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>	2016		2015	
Cash and due from banks	\$	15	\$	15
Held-to-maturity securities		1		1
Portfolio loans at fair value		3		4
Loans, net of unearned income ^(a)		1,562		1,824
Less: Allowance for loan and lease losses		24		28
Net loans		1,541		1,800
Accrued income and other assets		28		30
Total assets	\$	1,585	\$	1,846

- (a) At December 31, 2016, and December 31, 2015, unearned income was less than \$1 million.

15. Securities Financing Activities

We enter into repurchase agreements to finance overnight customer sweep deposits. We also enter into repurchase and reverse repurchase agreements 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. Reverse repurchase agreements and securities borrowed transactions are included in “short-term investments” on the balance sheet; repurchase agreements are included in “federal funds purchased and securities sold under repurchase agreements.”

During 2016, we noted that not all of our prior year repurchase agreements were captured in the table below. As a result, the amounts in the table were revised to incorporate all of our repurchase agreements at December 31, 2015. Because our repurchase agreements were appropriately accounted for in the prior year, these revisions did not impact our financial condition at December 31, 2015, or results of operations for the twelve months ended December 31, 2015. The following table summarizes our securities financing agreements at December 31, 2016, and December 31, 2015:

<i>in millions</i>	December 31, 2016			
	Gross Amount Presented in Balance Sheet	Netting Adjustments ^(a)	Collateral ^(b)	Net Amounts
Offsetting of financial assets:				
Reverse repurchase agreements	\$ 3	\$ (3)	—	—
Total	\$ 3	\$ (3)	—	—
Offsetting of financial liabilities:				
Repurchase agreements ^(c)	\$ 497	\$ (3)	\$ (494)	—
Total	\$ 497	\$ (3)	\$ (494)	—

<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)	\$ 352	—	\$ (352)	—
Total	\$ 352	—	\$ (352)	—

(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 mortgaged-backed agency securities and are contracted on an overnight or continuous basis.

As of December 31, 2016, the carrying amount of assets pledged as collateral against repurchase agreements totaled \$602 million. Assets pledged as collateral are reported in “available for sale” and “held-to-maturity” securities on our balance sheet. At December 31, 2016, the liabilities associated with collateral pledged were solely comprised of customer sweep financing activity and had a carrying value of \$494 million. The collateral pledged under customer sweep repurchase agreements is posted to a third-party custodian and cannot be sold or repledged by the secured party. The risk related to a decline in the market value of collateral pledged is minimal given the collateral's high credit quality and the overnight duration of the repurchase agreements.

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 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. With the exception of collateral pledged against customer sweep repurchase agreements, the collateral we pledge and receive can generally be sold or repledged by the secured parties.

16. Stock-Based Compensation

We maintain several stock-based compensation plans, which are described below. Total compensation expense for these plans was \$102 million for 2016, \$59 million for 2015, and \$46 million for 2014. The total income tax benefit recognized in the income statement for these plans was \$38 million for 2016, \$22 million for 2015, and \$17 million for 2014. 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, 2016, we had 48,840,093 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 2016, 2015, and 2014 are shown in the following table.

Year ended December 31,	2016	2015	2014
Average option life	6.0 years	6.0 years	6.2 years
Future dividend yield	2.86%	1.84%	1.70%
Historical share price volatility	.297	.382	.497
Weighted-average risk-free interest rate	1.3%	1.7%	1.9%

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.

The following table summarizes activity, pricing and other information for our stock options for the year ended December 31, 2016:

	Number of Options	Weighted-Average Exercise Price Per Option	Weighted-Average Remaining Life	Aggregate Intrinsic Value ^(a)
Outstanding at December 31, 2015	15,066,448	\$ 18.04	3.8 years	\$ 39
Granted	2,565,489	10.49		
First Niagara acquisition ^(b)	2,661,118	13.70		
Exercised	(2,849,010)	11.14		
Lapsed or canceled	(3,558,479)	34.56		
Outstanding at December 31, 2016	13,885,566	\$ 13.00	4.5 years	101
Expected to vest	3,169,239	11.26	8.6 years	22
Exercisable at December 31, 2016	10,296,733	\$ 13.61	3.1 years	\$ 76

(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.

(b) This amount represents awards granted as consideration for the First Niagara acquisition.

The weighted-average grant-date fair value of options was \$2.14 for options granted during 2016, \$4.33 for options granted during 2015, and \$5.26 for options granted during 2014. Stock option exercises numbered 2,849,010 in 2016, 2,496,965 in 2015, and 3,050,309 in 2014. The aggregate intrinsic value of exercised options was \$12 million for 2016, \$14 million for 2015, and \$16 million for 2014. As of December 31, 2016, unrecognized compensation cost related to nonvested options under the plans totaled \$3 million. We expect to recognize this cost over a weighted-average period of 2.8 years.

Cash received from options exercised was \$32 million, \$22 million, and \$26 million in 2016, 2015, and 2014, respectively. The actual tax benefit realized for the tax deductions from options exercised totaled \$2 million for 2016, \$2 million for 2015, and \$2 million for 2014.

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.

During 2016, the total of performance units vested numbered 1,915,239 and were payable in cash. The total fair value of the performance units that vested during 2016 was \$21 million. Performance units vested in 2015 and payable in cash numbered 1,075,082 and had a fair value of \$15 million.

The following table summarizes activity and pricing information for the nonvested shares in the Program for the year ended December 31, 2016.

	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, 2015	7,150,502	\$ 12.88	3,713,271	\$ 13.17
Granted	6,134,951	10.49	1,193,440	10.49
First Niagara acquisition ^(a)	4,121,896	11.51	—	—
Vested	(2,893,901)	11.52	(2,056,044)	11.28
Forfeited	(594,642)	11.68	(85,045)	17.02
Outstanding at December 31, 2016	13,918,806	\$ 11.78	2,765,622	\$ 14.45

(a) This amount represents awards granted as consideration for the First Niagara acquisition.

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 \$10.49 during 2016, \$13.99 during 2015, and \$13.00 during 2014. As of December 31, 2016, unrecognized compensation cost related to nonvested shares under the Program totaled \$70 million. We expect to recognize this cost over a weighted-average period of 2.3 years. The total fair value of shares vested was \$57 million in 2016, \$39 million in 2015, and \$36 million in 2014.

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. 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, 2016.

	Number of Nonvested Shares	Weighted-Average Grant-Date Fair Value
Outstanding at December 31, 2015	3,131,398	\$ 12.47
Granted	2,141,523	11.46
First Niagara acquisition ^(a)	104,683	11.57
Dividend equivalents	9,310	12.58
Vested	(1,401,650)	11.66
Forfeited	(127,112)	11.24
Outstanding at December 31, 2016	3,858,152	\$ 12.22

(a) This amount represents awards granted as consideration for the First Niagara acquisition.

The weighted-average grant-date fair value of awards granted was \$11.46 during 2016, \$14.22 during 2015, and \$13.53 during 2014. As of December 31, 2016, unrecognized compensation cost related to nonvested shares granted under our deferred compensation plans and the other restricted stock or unit award programs totaled \$19 million. We expect to recognize this cost over a weighted-average period of 1.9 years. The total fair value of shares vested was \$16 million in 2016, \$15 million in 2015, and \$12 million in 2014. 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 310,604 common shares at a weighted-average cost to the employee of \$11.04 during 2016, 250,913 common shares at a weighted-average cost to the employee of \$12.55 during 2015, and 238,257 common shares at a weighted-average cost to the employee of \$12.06 during 2014.

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.”

17. 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. As part of the acquisition of First Niagara, Key also obtained two frozen defined benefit plans sponsored by First Niagara, both of which provide benefits based upon length of service and compensation levels. Effective September 30, 2016, the two First Niagara plans merged into another defined benefit plan maintained by Key to form the KeyCorp Consolidated Cash Balance Plan. Effective December 31, 2016, our original cash balance pension plan merged into the KeyCorp Consolidated Cash Balance Plan.

Pre-tax AOCI not yet recognized as net pension cost was \$550 million at December 31, 2016, and \$593 million at December 31, 2015, consisting entirely of net unrecognized losses. During 2017, we expect to recognize \$17 million of net unrecognized losses in pre-tax AOCI as net pension cost.

During 2016, 2015, and 2014, 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>	2016	2015	2014
Interest cost on PBO	\$ 44	\$ 41	\$ 46
Expected return on plan assets	(58)	(56)	(66)
Amortization of losses	17	18	16
Settlement loss	18	23	23
Net pension cost	<u>\$ 21</u>	<u>\$ 26</u>	<u>\$ 19</u>
Other changes in plan assets and benefit obligations recognized in OCI:			
Net (gain) loss	\$ (9)	\$ 47	\$ 97
Amortization of gains	(35)	(41)	(39)
Total recognized in comprehensive income	<u>\$ (44)</u>	<u>\$ 6</u>	<u>\$ 58</u>
Total recognized in net pension cost and comprehensive income	<u>\$ (23)</u>	<u>\$ 32</u>	<u>\$ 77</u>

The information related to our pension plans presented in the following tables is based on current actuarial reports using measurement dates of December 31, 2016, and December 31, 2015.

The following table summarizes changes in the PBO related to our pension plans.

Year ended December 31, <i>in millions</i>	2016	2015
PBO at beginning of year	\$ 1,136	\$ 1,206
Interest cost	44	41
Actuarial losses (gains)	(25)	(24)
Benefit payments	(85)	(87)
Plan acquisitions	268	—
PBO at end of year	<u>\$ 1,338</u>	<u>\$ 1,136</u>

The following table summarizes changes in the FVA.

Year ended December 31, <i>in millions</i>	2016	2015
FVA at beginning of year	\$ 869	\$ 957
Actual return on plan assets	42	(15)
Employer contributions	14	14
Benefit payments	(85)	(87)
Plan acquisitions	293	—
FVA at end of year	<u>\$ 1,133</u>	<u>\$ 869</u>

The following table summarizes the funded status of the pension plans, which equals the amounts recognized in the balance sheets at December 31, 2016, and December 31, 2015.

December 31, <i>in millions</i>	2016	2015
Funded status ^(a)	<u>\$ (205)</u>	<u>\$ (267)</u>
Net prepaid pension cost recognized consists of:		
Current liabilities	\$ (16)	\$ (14)
Noncurrent liabilities	(189)	(253)
Net prepaid pension cost recognized ^(b)	<u>\$ (205)</u>	<u>\$ (267)</u>

(a) The shortage of the FVA under the PBO.

(b) Represents the accrued benefit liability of the pension plans.

At December 31, 2016, 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 2017. We also do not expect to make any significant discretionary contributions during 2017.

At December 31, 2016, we expect to pay the benefits from all funded and unfunded pension plans as follows: 2017 — \$114 million; 2018 — \$108 million; 2019 — \$114 million; 2020 — \$95 million; 2021 — \$91 million and \$422 million in the aggregate from 2022 through 2026.

The ABO for all of our pension plans was \$1.3 billion at December 31, 2016, and \$1.1 billion at December 31, 2015. 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>	2016	2015
PBO	\$ 1,338	\$ 1,136
ABO	1,338	1,136
Fair value of plan assets	1,133	869

To determine the actuarial present value of benefit obligations, we assumed the following weighted-average rates.

December 31,	2016	2015
Discount rate	3.75%	3.75%
Compensation increase rate	N/A	N/A

To determine net pension cost, we assumed the following weighted-average rates.

Year ended December 31,	2016	2015	2014
Discount rate	3.75%	3.50%	4.25%
Compensation increase rate	N/A	N/A	N/A
Expected return on plan assets	6.00	6.25	7.25

We estimate that we will recognize \$5 million in net pension benefit for 2017, compared to net pension cost of \$21 million in 2016, and \$26 million for 2015. A net pension benefit is expected in 2017 as compared to net pension cost in 2016 unless the 2017 lump sum payments made under our 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 2017, 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, a net pension benefit is expected in 2017 as opposed to cost in 2016, primarily due to a reduction in the unfunded status of the plan as a result of plan mergers. Costs decreased from 2015 to 2016 due to a smaller settlement loss and increased 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.

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 2017 by approximately \$3 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 2017 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:

- 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% for 2016, 6.25% for 2015 and 7.25% for 2014. 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 2017 pension cost.

The investment objectives of the pension fund are developed to reflect the characteristics of the plan, such as pension formulas, cash lump sum distribution features, and the liability profiles of the plan's participants. An executive oversight committee reviews the plan's investment performance at least quarterly, and compares performance against appropriate market indices. The pension fund's 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 fund's investment policies based on the plan's funded status at December 31, 2016.

Asset Class	Target Allocation 2016
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.

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); thus, these investments are not classified within the fair value hierarchy.

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); thus, these investments are not classified within the fair value hierarchy.

The following tables show the fair values of our pension plan assets by asset class at December 31, 2016, and December 31, 2015.

December 31, 2016				
<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSET CLASS				
Cash and cash equivalents	\$ 14	—	—	\$ 14
Equity securities:				
Common — U.S.	133	—	—	133
Common — International	15	—	—	15
Preferred — U.S.	2	—	—	2
Debt securities:				
Corporate bonds — U.S.	—	\$ 90	—	90
Corporate bonds — International	—	26	—	26
Government and agency bonds — U.S.	—	101	—	101
Government bonds — International	—	1	—	1
State and municipal bonds	—	5	—	5
Mutual funds:				
Equity — U.S.	118	—	—	118
Equity — International	35	—	—	35
Fixed income — U.S.	152	—	—	152
Fixed income — International	19	—	—	19
Real assets	9	—	—	9
Collective investment funds:				
Equity — U.S.	—	15	—	15
Equity — International	—	97	—	97
Convertible securities	—	43	—	43
Fixed income securities	—	79	—	79
Short-term investments	—	18	—	18
Real assets	—	95	—	95
Insurance investment contracts and pooled separate accounts (measured at NAV) ^(a)	—	—	—	14
Other assets (measured at NAV) ^(a)	—	—	—	52
Total net assets at fair value	\$ 497	\$ 570	—	\$ 1,133

- (a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the fair value of plan assets presented elsewhere within this footnote.

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.	—	\$ 97	—	97
Corporate bonds — International	—	26	—	26
Government and agency bonds — U.S.	—	95	—	95
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 (measured at NAV) ^(a)	—	—	—	14
Other assets (measured at NAV) ^(a)	—	—	—	52
Total net assets at fair value	\$ 197	\$ 606	—	\$ 869

- (a) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the fair value of plan assets presented elsewhere within this footnote.

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. Effective November 29, 2016, an unfunded retiree welfare plan previously sponsored by First Niagara merged into our current retiree healthcare plan.

The components of pre-tax AOCI not yet recognized as net postretirement benefit cost are shown below.

December 31,

in millions

	2016	2015
Net unrecognized losses (gains)	\$ (9)	\$ (5)
Net unrecognized prior service credit	(2)	(3)
Total unrecognized AOCI	\$ (11)	\$ (8)

During 2017, 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,*in millions*

	2016	2015	2014
Service cost of benefits earned	\$ 1	\$ 1	\$ 1
Interest cost on APBO	2	3	3
Expected return on plan assets	(2)	(3)	(3)
Amortization of prior service credit	(1)	(1)	(1)
Amortization of gains	—	—	(1)
Net postretirement benefit	—	—	\$ (1)
Other changes in plan assets and benefit obligations recognized in OCI:			
Net (gain) loss	\$ (4)	\$ (6)	\$ 13
Amortization of prior service credit	1	1	1
Amortization of losses	—	—	1
Total recognized in comprehensive income	\$ (3)	\$ (5)	\$ 15
Total recognized in net postretirement benefit cost and comprehensive income	\$ (3)	\$ (5)	\$ 14

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, 2016, and December 31, 2015.

The following table summarizes changes in the APBO.

Year ended December 31,*in millions*

	2016	2015
APBO at beginning of year	\$ 67	\$ 79
Service cost	1	1
Interest cost	2	3
Plan participants' contributions	2	2
Actuarial losses (gains)	(1)	(12)
Benefit payments	(6)	(6)
Plan acquisition	4	—
APBO at end of year	\$ 69	\$ 67

The following table summarizes changes in FVA.

Year ended December 31,*in millions*

	2016	2015
FVA at beginning of year	\$ 49	\$ 56
Employer contributions	—	—
Plan participants' contributions	2	2
Benefit payments	(6)	(6)
Actual return on plan assets	5	(3)
FVA at end of year	\$ 50	\$ 49

The following table summarizes the funded status of the postretirement plans, which corresponds to the amounts recognized in the balance sheets at December 31, 2016, and December 31, 2015.

December 31,*in millions*

	2016	2015
Funded status ^(a)	\$ (19)	\$ (18)
Accrued postretirement benefit cost recognized ^(b)	(19)	(18)

(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 2017, if any, will be minimal.

At December 31, 2016, we expect to pay the benefits from all funded and unfunded other postretirement plans as follows: 2017 — \$5 million; 2018 — \$5 million; 2019 — \$5 million; 2020 — \$5 million; 2021 — \$5 million; and \$23 million in the aggregate from 2022 through 2026.

To determine the APBO, we assumed discount rates of 3.75% at December 31, 2016, and 4% at December 31, 2015.

To determine net postretirement benefit cost, we assumed the following weighted-average rates.

Year ended December 31,	2016	2015	2014
Discount rate	4.00%	3.75%	4.50%
Expected return on plan assets	4.50	4.50	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 2017, compared to a break-even position of no credit or expense for 2016 and an expense of less than of \$1 million for 2015.

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 2016
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, 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, 2016, and December 31, 2015.

December 31, 2016

<i>in millions</i>	Level 1	Level 2	Level 3	Total
ASSET CLASS				
Mutual funds:				
Equity — U.S.	\$ 23	—	—	\$ 23
Equity — International	5	—	—	5
Fixed income — U.S.	5	—	—	5
Common investment funds:				
Equity — U.S.	—	\$ 10	—	10
Short-term investments	—	7	—	7
Total net assets at fair value	\$ 33	\$ 17	—	\$ 50

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

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, 2016, and December 31, 2015, 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 to eligible employees who have at least one year of service. First Niagara employees who joined Key retained their years of services, and those employees that met eligibility requirements under Key’s savings plan have been included. We accrued a 2.5% contribution for 2016 and made contributions of 2% for each of 2015 and 2014 on eligible compensation for employees eligible on the last business day of the 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 \$94 million in 2016, \$79 million in 2015, and \$73 million in 2014.

18. 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>	2016	2015	2014
FEDERAL FUNDS PURCHASED			
Balance at year end	\$ 1,005	\$ 20	\$ 18
Average during the year	44	195	32
Maximum month-end balance	1,005	678	36
Weighted-average rate during the year ^(a)	.68%	.14%	.10%
Weighted-average rate at December 31 ^(a)	.55	.05	.08
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS			
Balance at year end	\$ 497	\$ 352	\$ 557
Average during the year	443	437	1,150
Maximum month-end balance	684	589	1,519
Weighted-average rate during the year ^(a)	.04%	.00%	.16%
Weighted-average rate at December 31 ^(a)	.07	.00	.01
OTHER SHORT-TERM BORROWINGS			
Balance at year end	\$ 808	\$ 533	\$ 423
Average during the year	852	572	597
Maximum month-end balance	872	1,122	996
Weighted-average rate during the year ^(a)	1.18%	1.52%	1.49%
Weighted-average rate at December 31 ^(a)	1.11	1.78	1.58

(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 9 (“Derivatives and Hedging Activities”).

As described below and in Note 19 (“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 \$1.8 billion at December 31, 2016, 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, 2016, our unused secured borrowing capacity was \$27.4 billion at the Federal Reserve Bank of Cleveland and \$6.4 billion at the FHLB.

19. Long-Term Debt

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 9 (“Derivatives and Hedging Activities”).

December 31,

dollars in millions

	2016	2015
Senior medium-term notes due through 2021 ^(a)	\$ 2,799	\$ 2,817
7.25% Subordinated notes due 2021 ^(b)	358	—
6.75% Senior notes due 2020 ^(b)	338	—
1.586% Subordinated notes due 2028 ^(c)	162	162
6.875% Subordinated notes due 2029 ^(c)	111	114
7.750% Subordinated notes due 2029 ^(c)	141	147
Other subordinated notes ^(d)	78	—
Total parent company	3,987	3,240
Senior medium-term notes due through 2039 ^(e)	6,715	5,242
3.18% Senior remarketable notes due 2027 ^(f)	193	183
5.45% Subordinated notes due 2016 ^(f)	—	503
5.70% Subordinated notes due 2017 ^(f)	207	215
4.625% Subordinated notes due 2018 ^(f)	102	103
3.40% Subordinated notes due 2026 ^(f)	567	—
6.95% Subordinated notes due 2028 ^(f)	299	298
Secured borrowing due through 2021 ^(g)	68	134
Federal Home Loan Bank advances due through 2036 ^(h)	126	166
Investment Fund Financing due through 2052 ⁽ⁱ⁾	100	100
Obligations under Capital Leases due through 2032 ^(j)	20	—
Total subsidiaries	8,397	6,944
Total long-term debt	\$ 12,384	\$ 10,184

- (a) Senior medium-term notes had a weighted-average interest rate of 3.57% at December 31, 2016, and 3.58% at December 31, 2015. These notes had fixed interest rates at December 31, 2016, and December 31, 2015. These notes may not be redeemed prior to their maturity dates.
- (b) These notes are all obligations of KeyCorp and may not be redeemed prior to their maturity dates.
- (c) See Note 20 (“Trust Preferred Securities Issued by Unconsolidated Subsidiaries”) for a description of these notes.
- (d) These subordinated notes represent seven trust preferred debentures acquired in the First Niagara acquisition. These notes have different interest rates ranging from 2.167% to 10.875% with maturity dates between 2030 and 2037. See Note 20 (“Trust Preferred Securities Issued by Unconsolidated Subsidiaries”) for a description of these notes.
- (e) Senior medium-term notes had weighted-average interest rates of 1.93% at December 31, 2016, and 1.99% at December 31, 2015. These notes had a combination of fixed and floating interest rates, and may not be redeemed prior to their maturity dates.
- (f) These notes are all obligations of KeyBank and may not be redeemed prior to their maturity dates.
- (g) The secured borrowing had weighted-average interest rates of 4.45% at December 31, 2016, and 4.42% at December 31, 2015. 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 5 (“Loans and Loans Held for Sale”).
- (h) Long-term advances from the Federal Home Loan Bank had a weighted-average interest rate of 3.64% at December 31, 2016, and 3.58% at December 31, 2015. These advances, which had fixed interest rates, were secured by real estate loans and securities totaling \$126 million at December 31, 2016, and \$251 million at December 31, 2015.
- (i) Investment Fund Financing had a weighted-average interest rate of 1.94% at December 31, 2016, and December 31, 2015.
- (j) These are capital leases acquired in the First Niagara merger with a maturity range from January 2018 through October 2032.

At December 31, 2016, scheduled principal payments on long-term debt were as follows:

<i>in millions</i>	Parent	Subsidiaries	Total
2017	—	\$ 270	\$ 270
2018	\$ 750	2,120	2,870
2019	—	2,253	2,253
2020	1,332	1,012	2,344
2021	1,413	752	2,165
All subsequent years	493	1,989	2,482

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 2015: 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.

In 2016, KeyBank issued the following notes under the Global Bank Note Program: on March 8, 2016, \$1 billion of 2.35% Senior Bank Notes due March 8, 2019; on May 20, 2016, \$600 million of 3.40% Subordinated Bank Notes due May 20, 2026; on August 22, 2016, \$500 million of 1.60% Senior Bank Notes due August 22, 2019; and on November 22, 2016, \$250 million of Floating Rate Senior Notes and \$500 million of 2.50% Senior Notes each due November 22, 2021. At December 31, 2016, \$17.15 billion remained available for future issuance under the Global Bank Note Program.

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, 2016, 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.

20. 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.

During 2016, we redeemed \$21 million of trust preferred securities that were acquired in the First Niagara acquisition.

The trust preferred securities, common stock, and related debentures are summarized as follows:

<i>dollars in millions</i>	Trust Preferred Securities, Net of Discount ^(a)	Common Stock	Principal Amount of Debentures, Net of Discount ^(b)	Interest Rate of Trust Preferred Securities and Debentures ^(c)	Maturity of Trust Preferred Securities and Debentures
December 31, 2016					
KeyCorp Capital I	\$ 156	\$ 6	\$ 162	1.586%	2028
KeyCorp Capital II	107	4	111	6.875	2029
KeyCorp Capital III	137	4	141	7.750	2029
Harleysville Statutory Trust I	5	—	5	10.200	2031
HNC Statutory Trust III	18	1	19	2.320	2035
Willow Grove Statutory Trust I	18	1	19	2.273	2036
HNC Statutory Trust IV	16	1	17	2.167	2037
Alliance Capital Trust II	4	—	4	10.875	2030
Westbank Capital Trust II	7	—	7	3.187	2034
Westbank Capital Trust III	7	—	7	3.187	2034
Total	\$ 475	\$ 17	\$ 492	4.845%	—
December 31, 2015	\$ 408	\$ 14	\$ 422	4.961 %	—

- (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 \$59 million at December 31, 2016, and \$68 million at December 31, 2015. See Note 9 (“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, HNC Statutory Trust III, Willow Grove Statutory Trust I, HNC Statutory Trust IV, Westbank Capital Trust II, or Westbank Capital Trust III 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. If the debentures purchased by Harleysville Statutory Trust I are redeemed before they mature, the redemption price will be an annually declining percentage of the principal amount, beginning at 105.10% of the principal amount for a redemption on or after February 22, 2011, and ending at 100% of the principal amount for a redemption on or after February 22, 2021, plus any accrued but unpaid interest. If the debentures purchased by Alliance Capital Trust II are redeemed before they mature, the redemption price will be an annually declining percentage of the principal amount, beginning at 105.438% of the principal amount for a redemption on or after March 8, 2010, and ending at 100% of the principal amount for a redemption on or after March 8, 2020, plus any accrued but unpaid interest. The principal amount of certain debentures includes basis adjustments related to fair value hedges totaling \$59 million at December 31, 2016, and \$68 million at December 31, 2015. See Note 9 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, KeyCorp Capital III, Harleysville Statutory Trust I, and Alliance Capital Trust II are fixed. The trust preferred securities issued by KeyCorp Capital I have a floating interest rate, equal to three-month LIBOR plus 74 basis points, that reprices quarterly. The trust preferred securities issued by HNC Statutory Trust III have a floating interest rate, equal to three-month LIBOR plus 140 basis points, that reprices quarterly. The trust preferred securities issued by Willow Grove Statutory Trust I have a floating interest rate, equal to three-month LIBOR plus 131 basis points, that reprices quarterly. The trust preferred securities issued by HNC Statutory Trust IV have a floating interest rate, equal to three-month LIBOR plus 128 basis points, that reprices quarterly. The trust preferred securities issued by Westbank Capital Trust II and Westbank Capital Trust III each have a floating interest rate, equal to three-month LIBOR plus 219 basis points, that reprices quarterly. The total interest rates are weighted-average rates.

21. 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 \$118 million in 2016, \$122 million in 2015, and \$123 million in 2014. Minimum future rental payments under noncancelable operating leases at December 31, 2016, are as

follows: 2017 — \$149 million; 2018 — \$133 million; 2019 — \$115 million; 2020 — \$98 million; 2021 — \$83 million; all subsequent years — \$390 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 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 6 (“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 7 (“Fair Value Measurements”). Other unfunded equity investment commitments at December 31, 2016, and December 31, 2015, related to tax credit investments and were primarily attributable to LIHTC investments. Unfunded tax credit investment commitments are recorded on our balance sheet in “other liabilities.” Additional information on LIHTC commitments is provided in Note 12 (“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, 2016, and December 31, 2015. 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, in millions	2016	2015
Loan commitments:		
Commercial and other	\$ 34,372	\$ 28,053
Commercial real estate and construction	3,034	1,718
Home equity	9,666	7,220
Credit cards	5,653	3,603
Total loan commitments	52,725	40,594
When-issued and to be announced securities commitments	34	2
Commercial letters of credit	143	139
Purchase card commitments	293	163
Principal investing commitments	37	50
Tax credit investment commitments	466	410
Liabilities of certain limited partnerships and other commitments	2	1
Total loan and other commitments	\$ 53,700	\$ 41,359

Legal Proceedings

Checking Account Overdraft Litigation. In February 2010, 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.

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, 2016. 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, 2016 in millions	Maximum Potential Undiscounted Future Payments	Liability Recorded
Financial guarantees:		
Standby letters of credit	\$ 11,864	\$ 67
Recourse agreement with FNMA	2,530	5
Residential mortgage reserve	1,248	5
Return guarantee agreement with LIHTC investors	3	3
Written put options ^(a)	1,904	35
Total	<u>\$ 17,549</u>	<u>\$ 115</u>

(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, 2016, 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, 2016, our standby letters of credit had a remaining weighted-average life of 2 years, with remaining actual lives ranging from less than 1 year to as many as 30 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, 2016, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 7.5 years, and the unpaid principal balance outstanding of loans sold by us as a participant was \$8.6 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 29% of the principal balance of loans outstanding at December 31, 2016. 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.

Residential Mortgage Banking. We often originate and sell residential mortgage loans and retain the servicing rights. Our loan sales activity is generally conducted through loan sales in a secondary market sponsored by FNMA and FHLMC. Subsequent to the sale of mortgage loans, we do not typically retain any interest in the underlying loans except through our relationship as the servicer of the loans.

As is customary in the mortgage banking industry, we, or banks we have acquired, have made certain representations and warranties related to the sale of residential mortgage loans (including loans sold with servicing rights released) and to the performance of our obligations as servicer. The breach of any such representations or warranties could result in losses for us. Our maximum exposure to loss is equal to the outstanding principal balance of the sold loans; however, any loss would be reduced by any payments received on the loans or through the sale of collateral.

At December 31, 2016, the outstanding residential mortgage loans in this program had an original weighted-average loan to value ratio of 71%, and the unpaid principal balance outstanding of loans sold by us was \$4.2 billion. The risk assessment is low for the residential mortgage product. 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, 2016.

Our liability for estimated repurchase obligations on loans sold, which is included in other liabilities on our balance sheet, was \$5 million at December 31, 2016.

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 \$3 million at December 31, 2016, 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 12 ("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, 2016, our written put options had an average life of 3 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 9 ("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 9.

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, 2016, we had less than \$1 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.

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.

22. Accumulated Other Comprehensive Income

Our changes in AOCI for the years ended December 31, 2016, and December 31, 2015, 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, 2014	\$ (4)	\$ (8)	\$ 22	\$ (366)	\$ (356)
Other comprehensive income before reclassification, net of income taxes	(127)	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)
Balance at December 31, 2015	\$ (58)	\$ 20	\$ (2)	\$ (365)	\$ (405)
Other comprehensive income before reclassification, net of income taxes	(127)	17	(1)	5	(106)
Amounts reclassified from accumulated other comprehensive income, net of income taxes ^(a)	—	(51)	—	21	(30)
Net current-period other comprehensive income, net of income taxes	(127)	(34)	(1)	26	(136)
Balance at December 31, 2016	\$ (185)	\$ (14)	\$ (3)	\$ (339)	\$ (541)

(a) See table below for details about these reclassifications.

Our reclassifications out of AOCI for the years ended December 31, 2016, and December 31, 2015, are as follows:

Year ended December 31, 2016 <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	\$ 85	Interest income — Loans
Interest rate	(4)	Interest expense — Long-term debt
	81	Income (loss) from continuing operations before income taxes
	30	Income taxes
	<u>\$ 51</u>	Income (loss) from continuing operations
Net pension and postretirement benefit costs		
Amortization of losses	\$ (17)	Personnel expense
Settlement loss	(18)	Personnel expense
Amortization of prior service credit	1	Personnel expense
	(34)	Income (loss) from continuing operations before income taxes
	(13)	Income taxes
	<u>\$ (21)</u>	Income (loss) from continuing operations

Year ended December 31, 2015 <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 available-for-sale securities		
Realized gains	\$ 1	Other income
Realized losses	(1)	Other income
	—	Income (loss) from continuing operations before income taxes
	—	Income taxes
	<u>—</u>	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
	94	Income (loss) from continuing operations before income taxes
	35	Income taxes
	<u>\$ 59</u>	Income (loss) from continuing operations
Foreign currency translation adjustment		
	\$ (1)	Corporate services income
	(1)	Income (loss) from continuing operations before income taxes
	—	Income taxes
	<u>\$ (1)</u>	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
	(40)	Income (loss) from continuing operations before income taxes
	(15)	Income taxes
	<u>\$ (25)</u>	Income (loss) from continuing operations

23. Shareholders' Equity

Comprehensive Capital Plan

As previously reported and as authorized by the Board and pursuant to our 2016 capital plan (which is effective through the second quarter of 2017) submitted to and not objected to by the Federal Reserve, we had authority to repurchase up to \$350 million of our common shares, which include repurchases to offset issuances of common shares under our employee compensation plans. During 2016, we repurchased \$133 million of common shares under our 2016 capital plan authorization.

Our Board declared a quarterly dividend of \$.075 per common share for the first quarter of 2016. Consistent with our 2016 capital plan, the Board declared a quarterly dividend of \$.085 per common share for the second, third, and fourth quarters of 2016, which brought our annual dividend to \$.330 per common share for 2016. Our 2016 capital plan proposed an increase in our quarterly common share dividend, up to \$.095 per share, which will be considered by the Board for the second quarter of 2017.

Preferred Stock

We have \$290 million of 7.75% Noncumulative Perpetual Convertible Series A Preferred Stock outstanding at December 31, 2016. Our Series A Preferred Stock has a \$1 par value and a \$100 liquidation preference. There were 7,475,000 shares authorized and 2,900,234 shares outstanding at December 31, 2016, and December 31, 2015. We made quarterly dividend payments of \$1.9375 per share on our Series A Preferred Stock during each quarter of 2016 for a total of \$22 million.

On August 1, 2016, we issued \$350 million of Fixed-to-Floating Rate Perpetual Noncumulative Series C Preferred Stock. Our Series C Preferred Stock was issued in connection with the First Niagara acquisition to replace First Niagara's outstanding preferred stock. Our Series C Preferred Stock has a \$1 par value with a \$25 liquidation preference. There are 14,000,000 shares authorized and 14,000,000 shares outstanding at December 31, 2016. During the fourth quarter of 2016, we made payments of \$0.539063 per share on our Series C Preferred Stock for a total of \$8 million. On February 15, 2017, the Series C Preferred Stock was redeemed. For more information on this redemption, see Note 26 ("Subsequent Events").

On September 9, 2016, we issued \$525 million of depositary shares, each representing a 1/25th ownership interest in a share of our Fixed-to-Floating Rate Perpetual Noncumulative Series D Preferred Stock. Our Series D Preferred Stock has a \$1 par value with a \$25,000 liquidation preference. There are 21,000 shares authorized and 21,000 shares outstanding at December 31, 2016. We made payments of \$13.33 per depositary share on the depositary shares related to our Series D Preferred Stock during the fourth quarter of 2016 for a total of \$7 million.

On December 12, 2016, we issued \$500 million of depositary shares, each representing a 1/40th ownership interest in a share of our Fixed-to-Floating Rate Perpetual Noncumulative Series E Preferred Stock. Our Series E Preferred Stock has a \$1 par value with a \$1,000 liquidation preference. There are 500,000 shares authorized and 500,000 shares outstanding at December 31, 2016.

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, 2016, KeyCorp and KeyBank (consolidated) met all regulatory capital requirements.

KeyBank (consolidated) qualified for the "well capitalized" prompt corrective action capital category at December 31, 2016, 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.

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, 2016, 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.

At December 31, 2016, 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, 2016						
TOTAL CAPITAL TO NET RISK-WEIGHTED ASSETS						
Key	\$ 15,638	12.85%	\$ 9,734	8.00%	N/A	N/A
KeyBank (consolidated)	14,291	12.36	9,251	8.00	\$ 11,564	10.00%
TIER 1 CAPITAL TO NET RISK-WEIGHTED ASSETS						
Key	\$ 13,249	10.89%	\$ 7,300	6.00%	N/A	N/A
KeyBank (consolidated)	12,439	10.76	6,939	6.00	\$ 6,939	6.00%
TIER 1 CAPITAL TO AVERAGE QUARTERLY TANGIBLE ASSETS						
Key	\$ 13,249	9.90%	\$ 5,442	4.00%	N/A	N/A
KeyBank (consolidated)	12,439	9.46	5,353	4.00	\$ 6,691	5.00%
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%

24. 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 15-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. Key Community Bank offers personal property and casualty insurance, such as home, auto, renters, watercraft, and umbrella. Key Community Bank also purchases retail auto sales contracts via a network of auto dealerships. The auto dealerships finance the sale of automobiles as the initial lender and then assign the contracts to us pursuant to dealer agreements. 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, life 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, insurance including Commercial Property and Casualty as well as Captive Insurance 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 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 consists 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 including merger-related charges.

The table on the following pages shows selected financial data for our major business segments for the years ended December 31, 2016, 2015, and, 2014.

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.”
- 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%.
- Capital is assigned to each line of business based on economic equity.

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		
	2016	2015	2014	2016	2015	2014
SUMMARY OF OPERATIONS						
Net interest income (TE)	\$ 1,947	\$ 1,487	\$ 1,447	\$ 1,048	\$ 887	\$ 842
Noninterest income	925	788	769	1,014	926	807
Total revenue (TE) ^(a)	2,872	2,275	2,216	2,062	1,813	1,649
Provision for credit losses	147	70	59	120	103	14
Depreciation and amortization expense	75	56	65	60	43	31
Other noninterest expense	2,056	1,729	1,696	1,067	940	843
Income (loss) from continuing operations before income taxes (TE)	594	420	396	815	727	761
Allocated income taxes (benefit) and TE adjustments	221	156	147	183	190	215
Income (loss) from continuing operations	373	264	249	632	537	546
Income (loss) from discontinued operations, net of taxes	—	—	—	—	—	—
Net income (loss)	373	264	249	632	537	546
Less: Net income (loss) attributable to noncontrolling interests	—	—	—	(2)	1	2
Net income (loss) attributable to Key	\$ 373	\$ 264	\$ 249	\$ 634	\$ 536	\$ 544
AVERAGE BALANCES ^(b)						
Loans and leases	\$ 37,613	\$ 30,834	\$ 30,105	\$ 31,935	\$ 25,865	\$ 22,978
Total assets ^(a)	40,284	32,948	32,241	37,801	31,546	28,070
Deposits	63,895	51,163	50,316	20,783	19,043	17,094
OTHER FINANCIAL DATA						
Expenditures for additions to long-lived assets ^{(a), (b)}	\$ 1,478	\$ 75	\$ 45	\$ 340	\$ 16	\$ 102
Net loan charge-offs ^(b)	114	92	117	83	40	(18)
Return on average allocated equity ^(b)	10.87%	9.80%	9.14%	26.85%	28.57%	33.56%
Return on average allocated equity	10.87	9.80	9.14	26.85	28.57	33.56
Average full-time equivalent employees ^(c)	8,928	7,520	7,761	2,248	2,100	1,975

- (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.

Other Segments			Total Segments			Reconciling Items			Key		
2016	2015	2014	2016	2015	2014	2016	2015	2014	2016	2015	2014
\$ (44)	\$ (8)	\$ 23	\$ 2,951	\$ 2,366	\$ 2,312	\$ 2	\$ 10	\$ 5	\$ 2,953	\$ 2,376	\$ 2,317
153	183	231	2,092	1,897	1,807	(21)	(17)	(10)	2,071	1,880	1,797
109	175	254	5,043	4,263	4,119	(19)	(7)	(5)	5,024	4,256	4,114
(4)	(8)	(15)	263	165	58	3	1	(1)	266	166	57
4	8	12	139	107	108	164	148	152	303	255	260
44	47	70	3,167	2,716	2,609	286	(131)	(108)	3,453	2,585	2,501
65	128	187	1,474	1,275	1,344	(472)	(25)	(48)	1,002	1,250	1,296
(20)	—	26	384	346	388	(171)	(15)	(38)	213	331	350
85	128	161	1,090	929	956	(301)	(10)	(10)	789	919	946
—	—	—	—	—	—	1	1	(39)	1	1	(39)
85	128	161	1,090	929	956	(300)	(9)	(49)	790	920	907
2	3	5	—	4	7	(1)	—	—	(1)	4	7
\$ 83	\$ 125	\$ 156	\$ 1,090	\$ 925	\$ 949	\$ (299)	\$ (9)	\$ (49)	\$ 791	\$ 916	\$ 900
\$ 1,477	\$ 1,852	\$ 2,528	\$ 71,025	\$ 58,551	\$ 55,611	\$ 123	\$ 43	\$ 68	\$ 71,148	\$ 58,594	\$ 55,679
33,565	26,935	26,113	111,650	91,429	86,424	887	597	655	112,537	92,026	87,079
1,481	467	579	86,159	70,673	67,989	193	(43)	(124)	86,352	70,630	67,865
—	—	—	\$ 1,818	\$ 91	\$ 147	\$ 116	\$ 48	\$ 118	\$ 1,934	\$ 139	\$ 265
\$ 7	\$ 9	\$ 14	204	141	113	1	1	—	205	142	113
47.43%	58.96%	55.71%	18.27%	19.34%	20.52%	(4.49)%	(.17)%	(.17)%	6.25%	8.61%	8.97%
47.43	58.96	55.71	18.27	19.34	20.52	(4.48)	(.15)	(.84)	6.25	8.61	8.59
10	14	42	11,186	9,634	9,778	4,514	3,849	4,075	15,700	13,483	13,853

25. Condensed Financial Information of the Parent Company

CONDENSED BALANCE SHEETS

December 31, <i>in millions</i>	2016	2015
ASSETS		
Cash and due from banks	\$ 3,286	\$ 2,608
Short-term investments	70	58
Securities available for sale	10	10
Other investments	25	14
Loans to:		
Banks	250	250
Nonbank subsidiaries	31	187
Total loans	281	437
Investment in subsidiaries:		
Banks	14,564	9,955
Nonbank subsidiaries	668	703
Total investment in subsidiaries	15,232	10,658
Goodwill	167	167
Other intangible assets	—	—
Corporate-owned life insurance	207	206
Derivative assets	53	12
Accrued income and other assets	451	319
Total assets	<u>\$ 19,782</u>	<u>\$ 14,489</u>
LIABILITIES		
Accrued expense and other liabilities	\$ 553	\$ 503
Derivative liabilities	2	—
Long-term debt due to:		
Subsidiaries	850	423
Unaffiliated companies	3,137	2,817
Total long-term debt	3,987	3,240
Total liabilities	4,542	3,743
SHAREHOLDERS' EQUITY ^(a)	15,240	10,746
Total liabilities and shareholders' equity	<u>\$ 19,782</u>	<u>\$ 14,489</u>

(a) See Key's Consolidated Statements of Changes in Equity.

CONDENSED STATEMENTS OF INCOME

Year ended December 31, <i>in millions</i>	2016	2015	2014
INCOME			
Dividends from subsidiaries:			
Bank subsidiaries	\$ 625	\$ 1,000	\$ 300
Nonbank subsidiaries	50	1	—
Interest income from subsidiaries	10	10	16
Other income	11	20	15
Total income	696	1,031	331
EXPENSE			
Interest on long-term debt with subsidiary trusts	16	10	10
Interest on other borrowed funds	67	52	53
Personnel and other expense	101	73	40
Total expense	184	135	103
Income (loss) before income taxes and equity in net income (loss) less dividends from subsidiaries	512	896	228
Income tax (expense) benefit	54	39	45
Income (loss) before equity in net income (loss) less dividends from subsidiaries	566	935	273
Equity in net income (loss) less dividends from subsidiaries ^(a)	224	(15)	634
NET INCOME (LOSS)	790	920	907
Less: Net income attributable to noncontrolling interests	(1)	4	7
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	<u>\$ 791</u>	<u>\$ 916</u>	<u>\$ 900</u>

(a) Includes results of discontinued operations described in Note 14 ("Acquisition, Divestiture, and Discontinued Operations").

CONDENSED STATEMENTS OF CASH FLOWS

Year ended December 31,
in millions

	2016	2015	2014
OPERATING ACTIVITIES			
Net income (loss) attributable to Key	\$ 791	\$ 916	\$ 900
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Deferred income taxes (benefit)	(24)	10	(8)
Stock-based compensation expense	12	9	14
Equity in net (income) loss less dividends from subsidiaries ^(a)	(224)	15	(634)
Other intangible asset amortization	—	2	—
Net (increase) decrease in goodwill and other intangibles	—	86	—
Net (increase) decrease in other assets	(93)	29	(53)
Net increase (decrease) in other liabilities	9	(7)	98
Other operating activities, net	—	(52)	24
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	471	1,008	341
INVESTING ACTIVITIES			
Net (increase) decrease in short-term and other investments	(17)	(27)	4
Purchases of securities available for sale	—	(11)	(2)
Cash used in acquisitions	(481)	—	(114)
Proceeds from sales, prepayments and maturities of securities available for sale	—	20	—
Net (increase) decrease in loans to subsidiaries	160	(146)	257
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(338)	(164)	145
FINANCING ACTIVITIES			
Net proceeds from issuance of long-term debt	—	1,000	—
Payments on long-term debt	(21)	(750)	—
Repurchase of Treasury Shares	(140)	(448)	(484)
Net proceeds from the issuance of common shares and preferred stock	1,041	22	27
Cash dividends paid	(335)	(267)	(240)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	545	(443)	(697)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	678	401	(211)
CASH AND DUE FROM BANKS AT BEGINNING OF YEAR	2,608	2,207	2,418
CASH AND DUE FROM BANKS AT END OF YEAR	\$ 3,286	\$ 2,608	\$ 2,207

(a) Includes results of discontinued operations described in Note 14 (“Acquisition, Divestiture, and Discontinued Operations”).

KeyCorp paid interest on borrowed funds totaling \$114 million in 2016, \$112 million in 2015, and \$114 million in 2014.

26. Subsequent Events

Variation Margin as Settlement

Effective January 3, 2017, the Chicago Mercantile Exchange (“CME”), a clearing organization, amended its rulebook to legally characterize variation margin cash payments for cleared over-the-counter derivatives as settlement rather than collateral. As a result, variation margin payments are considered a single unit of account with the associated derivative for accounting and disclosure purposes. We currently clear a significant portion of our derivative trades through the CME. At December 31, 2016, and in all prior periods presented, we did not offset cash collateral held from or posted to the CME with the associated derivative asset or liability on our balance sheet. Further information regarding our treatment of cash collateral exchanged with clearing organizations is provided in Note 9 (“Derivatives and Hedging Activities”). In future periods, the variation margin cash payments posted and held in relation to CME-cleared derivative assets and liabilities will be applied against the gross balances of those associated derivative assets and liabilities. These rulebook amendments are expected to significantly reduce the carrying value of derivative assets and liabilities presented on our Consolidated Balance Sheets.

The changes to the rulebook are not expected to impact the hedge accounting relationships involving CME-cleared derivatives, and they are expected to have an immaterial effect on our results of operations.

Redemption of Series C Preferred Stock

On January 12, 2017, we provided notice of our intention to redeem all outstanding shares of the Series C Preferred Stock on February 15, 2017. On February 15, 2017, the Series C Preferred Stock was redeemed for cash at a redemption price of \$25 per share. The redemption date was also a dividend payment date, and declared dividends of \$0.539063 per share were also

paid separately on February 15, 2017. The Series C Preferred Stock was initially issued in connection with the First Niagara acquisition to replace First Niagara's outstanding preferred stock. For additional information on the Series C Preferred Stock, see Note 23 ("Shareholders' Equity").

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

We completed the integration of First Niagara operations into our overall internal control over financial reporting process as of December 31, 2016. 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 98, 99, and 100, respectively.

ITEM 9B. OTHER INFORMATION

Not applicable.

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 2017 Annual Meeting of Shareholders to be held May 18, 2017, (the "2017 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 2017 Proxy Statement with the SEC on or about March 31, 2017.

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 2017 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 2017 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 2017 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 2017 Proxy Statement, and is incorporated herein by reference.

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
Report of Independent Registered Public Accounting Firm	100
Consolidated Financial Statements	101
Consolidated Balance Sheets at December 31, 2016, and 2015	101
Consolidated Statements of Income for the Years Ended December 31, 2016, 2015, and 2014	102
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2016, 2015, and 2014	103
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2016, 2015, and 2014	104
Consolidated Statements of Cash Flows for the Years Ended December 31, 2016, 2015, and 2014	105
Notes to Consolidated Financial Statements	106

(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	Second Amended and Restated Articles of Incorporation of KeyCorp, effective August 1, 2016, filed as Exhibit 3.1 to Form 8-K on August 1, 2016.*
3.2	Amendment to Second Amended and Restated Articles of Incorporation of KeyCorp, effective September 7, 2016, filed as Exhibit 4.1 to Form 8-K on September 9, 2016.*
3.3	Amendment to Second Amended and Restated Articles of Incorporation of KeyCorp, effective December 8, 2016, filed as Exhibit 4.1 to Form 8-K on December 12, 2016.*
3.4	Second Amended and Restated Regulations of KeyCorp, effective March 23, 2016, filed as Exhibit 3 to Form 10-Q for the quarter ended March 31, 2016.*
4.1	Form of Certificate representing Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series D, filed as Exhibit 4.2 to Form 8-K on September 9, 2016.*
4.2	Deposit Agreement, dated as of September 9, 2016, among KeyCorp, Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, and the holders from time to time of the depositary receipts described therein, filed as Exhibit 4.3 to Form 8-K on September 9, 2016.*
4.3	Form of Depositary Receipt related to Series D Preferred Stock (included as part of Exhibit 4.2), filed as Exhibit 4.4 to Form 8-K on September 9, 2016.*
4.4	Form of Certificate representing Fixed-to-Floating Rate Perpetual Non-Cumulative Preferred Stock, Series E, filed as Exhibit 4.2 to Form 8-K on December 12, 2016.*
4.5	Deposit Agreement, dated as of December 12, 2016, among KeyCorp, Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary, and the holders from time to time of the depositary receipts described therein, filed as Exhibit 4.3 to Form 8-K on December 12, 2016.*
4.6	Form of Depositary Receipt related to Series E Preferred Stock (included as part of Exhibit 4.5), filed as Exhibit 4.4 to Form 8-K on December 12, 2016.*
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 Performance Shares Award Agreement (2014-2016), filed as Exhibit 10.5 to Form 10-K for the year ended December 31, 2013.*
- 10.3 Form of Performance Shares Award Agreement (2015-2017), filed as Exhibit 10.5 to Form 10-K for the year ended December 31, 2014.*
- 10.4 Form of Performance Shares Award Agreement (2016-2018), filed as Exhibit 10.5 to Form 10-K for the year ended December 31, 2015.*
- 10.5 Form of Performance Shares Award Agreement (2017-2019).
- 10.6 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 Stock Option Award Agreement under KeyCorp 2013 Equity Compensation Plan.
- 10.8 Form of Restricted Stock Unit Award Agreement under KeyCorp 2013 Equity Compensation Plan.
- 10.9 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.*
- 10.10 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.*
- 10.11 KeyCorp 2016 Annual Performance Plan, filed as Appendix A to Schedule 14A filed on April 6, 2016.*
- 10.12 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.*
- 10.13 KeyCorp 2010 Equity Compensation Plan (effective March 11, 2010), filed as Exhibit 10.16 to Form 10-K for the year ended December 31, 2015.*
- 10.14 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.*
- 10.15 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.*
- 10.16 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.*
- 10.17 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.*
- 10.18 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.*
- 10.19 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.*
- 10.20 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.*
- 10.21 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.*
- 10.22 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.*
- 10.23 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.*
- 10.24 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.*
- 10.25 KeyCorp 2013 Equity Compensation Plan (effective March 14, 2013), filed as Appendix A to Schedule 14A filed on March 29, 2013.*
- 10.26 KeyCorp Deferred Savings Plan (effective January 1, 2015), filed as Exhibit 10.31 to Form 10-K for the year ended December 31, 2014.*
- 10.27 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.*
- 10.28 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.*
- 10.29 Form of Merger Integration Performance Shares Award Agreement, filed as Exhibit 10.32 to Form 10-K for the year ended December 31, 2015.*

10.30	Amended and Restated First Niagara Bank and First Niagara Financial Group, Inc. Directors Deferred Fees Plan, filed as Exhibit 10.28 to First Niagara Financial Group, Inc.'s Form 10-K for the year ended December 31, 2013.*
10.31	First Niagara Financial Group, Inc. Amended and Restated 2002 Long-Term Incentive Stock Benefit Plan.
10.32	Form of Executive Performance Based Restricted Stock Unit Agreement under First Niagara Financial Group, Inc. 2012 Equity Incentive Plan for CEO, filed as Exhibit 10.1 to First Niagara Financial Group, Inc.'s Form 10-Q for the quarter ended March 31, 2015.*
10.33	Form of Executive Time-vested Restricted Stock Unit Agreement under First Niagara Financial Group, Inc. 2012 Equity Incentive Plan for CEO, filed as Exhibit 10.2 to First Niagara Financial Group, Inc.'s Form 10-Q for the quarter ended March 31, 2015.*
10.34	Form of Stock Option Agreement under First Niagara Financial Group, Inc. 2012 Equity Incentive Plan, filed as Exhibit 10.11 to First Niagara Financial Group, Inc.'s Form 10-Q for the quarter ended March 31, 2013.*
10.35	First Niagara Financial Group, Inc. 2012 Equity Incentive Plan, filed as Appendix A to First Niagara Financial Group, Inc.'s Schedule 14A filed on March 15, 2012.*
10.36	First Niagara Financial Group, Inc. 2012 Equity Incentive Plan, Amendment Number One, filed as Appendix B to First Niagara Financial Group, Inc.'s Schedule 14A filed on March 31, 2014.*
10.37	First Niagara Financial Group, Inc. 2012 Equity Incentive Plan, Amendment Number Two, filed as Appendix C to First Niagara Financial Group, Inc.'s Schedule 14A filed on March 31, 2014.*
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.
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 10.37 constitute management contracts or compensatory plans or arrangements.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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 28, 2017

/s/ Douglas M. Schosser

Douglas M. Schosser

Chief Accounting Officer (Principal Accounting Officer)

February 28, 2017

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)
*Austin A. Adams	Director
*Bruce D. Broussard	Director
*Joseph A. Carrabba	Director
*Charles P. Cooley	Director
*Gary M. Crosby	Director
*Alexander M. Cutler	Director
*H. James Dallas	Director
*Elizabeth R. Gile	Director
*Ruth Ann M. Gillis	Director
*William G. Gisell, Jr.	Director
*Carlton L. Highsmith	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 28, 2017

KEYCORP
COMPUTATION OF CONSOLIDATED RATIO OF EARNINGS TO
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(dollars in millions)
(unaudited)

	Year ended December 31,				
	2016	2015	2014	2013	2012
Computation of Earnings					
Net income (loss) attributable to Key	\$ 791	\$ 916	\$ 900	\$ 910	\$ 858
Add: Provision for income taxes	179	303	326	271	231
Less: Income (loss) from discontinued operations, net of taxes	1	1	(39)	40	23
Income (loss) before income taxes and cumulative effect of accounting change	969	1,218	1,265	1,141	1,066
Fixed charges, excluding interest on deposits	246	185	160	154	200
Total earnings for computation, excluding interest on deposits	1,215	1,403	1,425	1,295	1,266
Interest on deposits	171	105	117	158	257
Total earnings for computation, including interest on deposits	\$ 1,386	\$ 1,508	\$ 1,542	\$ 1,453	\$ 1,523
Computation of Fixed Charges					
Net rental expense	\$ 110	\$ 104	\$ 104	\$ 111	\$ 109
Portion of net rental expense deemed representative of interest	\$ 17	\$ 16	\$ 16	\$ 17	\$ 16
Interest on short-term borrowed funds	11	9	11	10	11
Interest on long-term debt	218	160	133	127	173
Total fixed charges, excluding interest on deposits	246	185	160	154	200
Interest on deposits	171	105	117	158	257
Total fixed charges, including interest on deposits	\$ 417	\$ 290	\$ 277	\$ 312	\$ 457
Combined Fixed Charges and Preferred Stock Dividends					
Preferred stock dividend requirement on a pre-tax basis	\$ 37	\$ 23	\$ 22	\$ 23	\$ 22
Total fixed charges, excluding interest on deposits	246	185	160	154	200
Combined fixed charges and preferred stock dividends, excluding interest on deposits	283	208	182	177	222
Interest on deposits	171	105	117	158	257
Combined fixed charges and preferred stock dividends, including interest on deposits	\$ 454	\$ 313	\$ 299	\$ 335	\$ 479
Ratio of Earnings to Fixed Charges					
Excluding deposit interest	4.94	7.58	8.91	8.41	6.33
Including deposit interest	3.32	5.20	5.57	4.66	3.33
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends					
Excluding deposit interest	4.29	6.75	7.83	7.32	5.70
Including deposit interest	3.05	4.82	5.16	4.34	3.18

KEYCORP
SUBSIDIARIES OF THE REGISTRANT AT DECEMBER 31, 2016

Subsidiaries ^(a)	Jurisdiction of Incorporation or Organization	Parent Company
KeyBank National Association	United States	KeyCorp

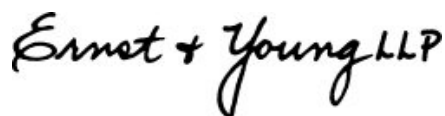
(a) Subsidiaries of KeyCorp other than KeyBank National Association are not listed above since, in the aggregate, they would not constitute a significant subsidiary. KeyBank National Association is 100% owned by KeyCorp.

Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of KeyCorp:

Form S-3 No. 333-55959
Form S-3 No. 333-59175
Form S-3 No. 333-64601
Form S-3 No. 333-76619
Form S-3 No. 333-151608
Form S-3 No. 333-174865
Form S-3 No. 333-196641
Form S-4 No. 333-146456
Form S-8 No. 333-49609
Form S-8 No. 333-70669
Form S-8 No. 333-70703
Form S-8 No. 333-70775
Form S-8 No. 333-72189
Form S-8 No. 333-92881
Form S-8 No. 333-45320
Form S-8 No. 333-45322
Form S-8 No. 333-99493
Form S-8 No. 333-107074
Form S-8 No. 333-107075
Form S-8 No. 333-107076
Form S-8 No. 333-109273
Form S-8 No. 333-112225
Form S-8 No. 333-116120
Form S-8 No. 333-167093
Form S-8 No. 333-188703
Form S-8 No. 333-208272

of our reports dated February 28, 2017, with respect to the consolidated financial statements of KeyCorp and the effectiveness of internal control over financial reporting of KeyCorp included in this Annual Report (Form 10-K) of KeyCorp for the year ended December 31, 2016.

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Cleveland, Ohio

February 28, 2017

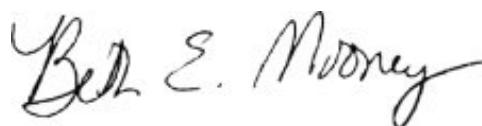
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**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Beth E. Mooney, certify that:

1. I have reviewed this annual report on Form 10-K of KeyCorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017



Beth E. Mooney
Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Donald R. Kimble, certify that:

1. I have reviewed this annual report on Form 10-K of KeyCorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

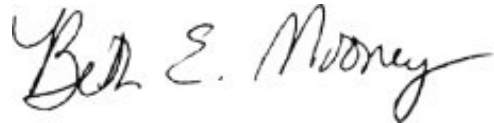


Donald R. Kimble
Chief Financial Officer

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. 1350, the undersigned officer of KeyCorp (the “Company”), hereby certifies that the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 (the “Report”) fully complies with the requirements of Section 13 (a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2017

A handwritten signature in black ink, reading "Beth E. Mooney". The signature is written in a cursive, flowing style.

Beth E. Mooney
Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. 1350, the undersigned officer of KeyCorp (the "Company"), hereby certifies that the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "Report") fully complies with the requirements of Section 13 (a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2017

A handwritten signature in dark ink, appearing to read "Donald R. Kimble", is written above a horizontal line.

Donald R. Kimble
Chief Financial Officer



Use the red key.

Investor connection

Key is committed to communicating with investors accurately and cost-effectively. By choosing to receive Key's Proxy Statement and Annual Report on Form 10-K over the Internet instead of receiving a paper copy, you get information faster and help us reduce costs and environmental impact. A copy of our 2016 Annual Report on Form 10-K is also available at no charge upon written request. If you wish to receive copies of any of the exhibits, we will send them to you upon payment of our expenses for doing so.

Please write to:
KeyCorp Investor Relations
127 Public Square • OH-01-27-0737
Cleveland, OH 44114-1306

If you hold your shares directly, you may sign up for electronic access at computershare.com through the Investor Center. If a broker holds your shares, contact the brokerage firm to sign up.

Key also encourages shareholders to vote their shares over the Internet or by phone instead of using the paper proxy card.

Key's Investor Relations website, key.com/IR, provides quick access to useful information and shareholder services, including live webcasts of management's quarterly earnings discussions.

Annual meeting of shareholders

Thursday, May 18, 2017 • 8:30 a.m.
Albright-Knox Art Gallery
1285 Elmwood Avenue
Buffalo, New York 14222

Common shares: KeyCorp common shares are listed on the New York Stock Exchange under the symbol KEY. Anticipated dividend payable dates are on or about the 15th of March, June, September, and December, subject to approval by our Board of Directors.

Quarterly financial releases: Key expects to announce quarterly earnings in the months of April, July, and October 2017 and January 2018. Earnings announcements can be accessed on key.com/IR. Printed copies of our earnings announcements also can be obtained by selecting the Request Information link on key.com/IR or by calling Key's Investor Relations department at 216-689-4221.

Dividend reinvestment/Direct stock purchase plan: Computershare Trust Company, Inc. administers a direct stock purchase plan that includes dividend reinvestment and Computershare BYDSSM for investors in common shares of KeyCorp. The plan brochure and enrollment forms can be downloaded at computershare.com.

Forward-looking statements: The preceding letter from our Chairman and Chief Executive Officer, accompanying articles, and this page contain forward-looking statements. For a discussion of factors that could cause future results to differ from historical performance or those forward-looking statements, see "Forward-looking Statements" on page 2, "Supervision and Regulation" on page 8, and "Item 1A. Risk Factors" on page 18 of the attached Annual Report on Form 10-K.

Online

key.com/IR

Telephone

Corporate Headquarters:
216-689-3000

Investor Relations: 216-689-4221

Media Relations: 720-904-4554

**Transfer Agent/Registrar and
Shareholder Services:** 800-539-7216

Mail

Corporate Headquarters:
KeyCorp
127 Public Square
Cleveland, OH 44114

KeyCorp Investor Relations:
127 Public Square
OH-01-27-0737
Cleveland, OH 44114

**Transfer Agent/Registrar
and Shareholder Services:**
Computershare
P.O. Box 43078
Providence, RI 02940

For overnight delivery:
Computershare
250 Royall Street
Canton, MA 02021



Use the red key.SM

Our new tagline, developed in 2016, leverages our iconic red key logo in creative ways to forge a brand identity that is engaging, bold, and distinctive.

The red key embodies our unique, relationship-based approach to fair and responsible banking and also symbolizes our collective commitment to KeyBank's purpose: to help our clients and our communities thrive.



KeyCorp
127 Public Square
Cleveland, OH 44114-1306