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Form 10-Q
November 01, 2018

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us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-07-01 2017-09-30 0000091576
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2017-12-31 0000091576
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us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-12-31 0000091576
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us-gaap:AccumulatedTranslationAdjustmentMember 2016-12-31 0000091576
us-gaap:AccumulatedNetUnrealizedInvestmentGainLossMember 2017-09-30 0000091576
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us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2017-01-01 2017-09-30 0000091576
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2018-01-01 2018-09-30 0000091576
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us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-09-30 0000091576
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us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2018-01-01 2018-09-30 0000091576
us-gaap:InterestExpenseMember us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
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us-gaap:InterestExpenseMember us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2017-01-01 2017-09-30 0000091576
key:AmortizationMember us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-01-01 2017-09-30 0000091576
us-gaap:InterestExpenseMember us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2017-07-01 2017-09-30 0000091576
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2017-07-01 2017-09-30 0000091576
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us-gaap:AccumulatedDefinedBenefitPlansAdjustmentMember 2018-07-01 2018-09-30 0000091576
us-gaap:InterestRateContractMember us-gaap:InterestIncomeMember
us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
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us-gaap:InterestRateContractMember us-gaap:InterestIncomeMember
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us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2018-07-01 2018-09-30 0000091576
us-gaap:InterestExpenseMember us-gaap:ReclassificationOutOfAccumulatedOtherComprehensiveIncomeMember
us-gaap:AccumulatedGainLossNetCashFlowHedgeParentMember 2018-07-01 2018-09-30 0000091576
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us-gaap:OperatingSegmentsMember key:CommunityBankingMember 2018-01-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:CommunityBankingMember 2017-01-01 2017-09-30 0000091576
us-gaap:MaterialReconcilingItemsMember 2017-07-01 2017-09-30 0000091576 us-gaap:OperatingSegmentsMember
us-gaap:AllOtherSegmentsMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember us-gaap:AllOtherSegmentsMember
2017-07-01 2017-09-30 0000091576 us-gaap:OperatingSegmentsMember 2017-07-01 2017-09-30 0000091576
us-gaap:MaterialReconcilingItemsMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:CorporateBankingMember 2017-07-01 2017-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:CorporateBankingMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:CommunityBankingMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:CommunityBankingMember 2017-07-01 2017-09-30 0000091576 us-gaap:OperatingSegmentsMember
us-gaap:AllOtherSegmentsMember 2018-01-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
2018-01-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember 2017-01-01 2017-09-30 0000091576
us-gaap:MaterialReconcilingItemsMember 2018-01-01 2018-09-30 0000091576

us-gaap:MaterialReconcilingItemsMember 2017-01-01 2017-09-30 0000091576 us-gaap:OperatingSegmentsMember
us-gaap:AllOtherSegmentsMember 2017-01-01 2017-09-30 0000091576 key:CardsAndPaymentsMember 2018-07-01
2018-09-30 0000091576 us-gaap:OperatingSegmentsMember key:ServiceChargesOnDepositAccountsMember
key:CommunityBankingMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:ServiceChargesOnDepositAccountsMember key:CorporateBankingMember 2018-07-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:InvestmentBankingAndDebtPlacementMember
key:CommunityBankingMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:CardsAndPaymentsMember key:CommunityBankingMember 2018-07-01 2018-09-30 0000091576
key:OtherNoninterestIncomeMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:TrustAndInvestmentServicesMember key:CorporateBankingMember 2018-07-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:InvestmentBankingAndDebtPlacementMember
key:CorporateBankingMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:TrustAndInvestmentServicesMember key:CommunityBankingMember 2018-07-01 2018-09-30 0000091576
key:ServiceChargesOnDepositAccountsMember 2018-07-01 2018-09-30 0000091576
key:InvestmentBankingAndDebtPlacementMember 2018-07-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:CardsAndPaymentsMember key:CorporateBankingMember 2018-07-01
2018-09-30 0000091576 us-gaap:OperatingSegmentsMember key:OtherNoninterestIncomeMember
key:CorporateBankingMember 2018-07-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:OtherNoninterestIncomeMember key:CommunityBankingMember 2018-07-01 2018-09-30 0000091576
key:TrustAndInvestmentServicesMember 2018-07-01 2018-09-30 0000091576
key:ServiceChargesOnDepositAccountsMember 2018-01-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:ServiceChargesOnDepositAccountsMember
key:CommunityBankingMember 2018-01-01 2018-09-30 0000091576 key:TrustAndInvestmentServicesMember
2018-01-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:ServiceChargesOnDepositAccountsMember key:CorporateBankingMember 2018-01-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:TrustAndInvestmentServicesMember key:CorporateBankingMember
2018-01-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember key:OtherNoninterestIncomeMember
key:CorporateBankingMember 2018-01-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:TrustAndInvestmentServicesMember key:CommunityBankingMember 2018-01-01 2018-09-30 0000091576
key:InvestmentBankingAndDebtPlacementMember 2018-01-01 2018-09-30 0000091576
key:OtherNoninterestIncomeMember 2018-01-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:OtherNoninterestIncomeMember key:CommunityBankingMember 2018-01-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:CardsAndPaymentsMember key:CommunityBankingMember 2018-01-01
2018-09-30 0000091576 key:CardsAndPaymentsMember 2018-01-01 2018-09-30 0000091576
us-gaap:OperatingSegmentsMember key:CardsAndPaymentsMember key:CorporateBankingMember 2018-01-01
2018-09-30 0000091576 us-gaap:OperatingSegmentsMember key:InvestmentBankingAndDebtPlacementMember
key:CommunityBankingMember 2018-01-01 2018-09-30 0000091576 us-gaap:OperatingSegmentsMember
key:InvestmentBankingAndDebtPlacementMember key:CorporateBankingMember 2018-01-01 2018-09-30
iso4217:USD xbrli:shares xbrli:shares iso4217:USD key:SecurityLoan xbrli:pure key:loan key:position key:derivative
key:rating key:employee key:Segment

[Table of contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2018

Commission File Number 001-11302

Exact name of registrant as specified in its charter:

Ohio **34-6542451**
State or other jurisdiction of incorporation or organization: I.R.S. 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:

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Common Shares with a par value of \$1 each</u>	<u>1,034,530,422 shares</u>
Title of class	Outstanding at October 30, 2018

Table of contents

KEYCORP
TABLE OF CONTENTS
PART I. FINANCIAL INFORMATION

	Page Number
Item 1. <u>Financial Statements</u>	<u>52</u>
<u>Consolidated Balance Sheets</u>	<u>52</u>
<u>Consolidated Statements of Income</u>	<u>53</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>54</u>
<u>Consolidated Statements of Changes in Equity</u>	<u>55</u>
<u>Consolidated Statements of Cash Flows</u>	<u>56</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>57</u>
<u>Note 1. Basis of Presentation and Accounting Policies</u>	<u>57</u>
<u>Note 2. Earnings Per Common Share</u>	<u>60</u>
<u>Note 3. Loan Portfolio</u>	<u>60</u>
<u>Note 4. Asset Quality</u>	<u>60</u>
<u>Note 5. Fair Value Measurements</u>	<u>70</u>
<u>Note 6. Securities</u>	<u>77</u>
<u>Note 7. Derivatives and Hedging Activities</u>	<u>79</u>
<u>Note 8. Mortgage Servicing Assets</u>	<u>85</u>
<u>Note 9. Variable Interest Entities</u>	<u>87</u>
<u>Note 10. Income Taxes</u>	<u>88</u>
<u>Note 11. Acquisitions, Divestiture, and Discontinued Operations</u>	<u>90</u>
<u>Note 12. Securities Financing Activities</u>	<u>91</u>
<u>Note 13. Employee Benefits</u>	<u>92</u>
<u>Note 14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries</u>	<u>92</u>
<u>Note 15. Contingent Liabilities and Guarantees</u>	<u>93</u>
<u>Note 16. Accumulated Other Comprehensive Income</u>	<u>96</u>
<u>Note 17. Shareholders' Equity</u>	<u>97</u>
<u>Note 18. Line of Business Results</u>	<u>97</u>
<u>Note 19. Revenue from Contracts with Customers</u>	<u>100</u>
<u>Report of Ernst & Young LLP, Independent Registered Public Accounting Firm</u>	<u>101</u>

Table of contents

Item 2. <u>Management's Discussion & Analysis of Financial Condition & Results of Operations</u>	<u>4</u>
<u>Introduction</u>	<u>4</u>
<u>Terminology</u>	<u>4</u>
<u>Forward-looking statements</u>	<u>5</u>
<u>Selected financial data</u>	<u>7</u>
<u>Long-term financial targets</u>	<u>9</u>
<u>Strategic developments</u>	<u>10</u>
<u>Demographics</u>	<u>11</u>
<u>Supervision and regulation</u>	<u>11</u>
<u>Results of Operations</u>	<u>17</u>
<u>Earnings overview</u>	<u>17</u>
<u>Net interest income</u>	<u>17</u>
<u>Provision for credit losses</u>	<u>21</u>
<u>Noninterest income</u>	<u>21</u>
<u>Noninterest expense</u>	<u>23</u>
<u>Income taxes</u>	<u>25</u>
<u>Line of Business Results</u>	<u>25</u>
<u>Key Community Bank summary of operations</u>	<u>26</u>
<u>Key Corporate Bank summary of operations</u>	<u>27</u>
<u>Other Segments</u>	<u>28</u>
<u>Financial Condition</u>	<u>29</u>
<u>Loans and loans held for sale</u>	<u>29</u>
<u>Securities</u>	<u>33</u>
<u>Deposits and other sources of funds</u>	<u>34</u>
<u>Capital</u>	<u>34</u>
<u>Risk Management</u>	<u>38</u>
<u>Overview</u>	<u>38</u>
<u>Market risk management</u>	<u>38</u>
<u>Liquidity risk management</u>	<u>42</u>
<u>Credit risk management</u>	<u>43</u>
<u>Operational and compliance risk management</u>	<u>46</u>
<u>Critical Accounting Policies and Estimates</u>	<u>48</u>
<u>Accounting and Reporting Developments</u>	<u>48</u>
<u>European Sovereign and Non-Sovereign Debt Exposures</u>	<u>51</u>
Item 3. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	<u>102</u>
Item 4. <u>Controls and Procedures</u>	<u>102</u>
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>102</u>
Item 1A. <u>Risk Factors</u>	<u>102</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>102</u>
Item 6. <u>Exhibits</u>	<u>103</u>
<u>Signature</u>	<u>105</u>

Table of contents

PART I. FINANCIAL INFORMATION

Item 2. Management’s Discussion & Analysis of Financial Condition & Results of Operations

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly and year-to-date periods ended September 30, 2018, and September 30, 2017. Some tables may 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 and notes that we refer to are presented in the Table of Contents.

References to our “2017 Form 10-K” refer to our Form 10-K for the year ended December 31, 2017, which has been filed with the SEC and is available on its website (www.sec.gov) and on our website (www.key.com/ir).

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 to KeyCorp’s subsidiary bank, KeyBank National Association.

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 and Austin. The education lending business and Austin have been accounted for as **discontinued operations** since 2009.

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. Banking regulators evaluate a component of Tier 1 capital, known as **Common Equity Tier 1**, under the **Regulatory Capital Rules**. The “Capital” section of this report under the heading “Capital adequacy” provides more information on total capital, Tier 1 capital, and the Regulatory Capital Rules, including Common Equity Tier 1, and describes how these measures are calculated.

Table of contents

The acronyms and abbreviations identified below are used in the Management’s Discussion & Analysis of Financial Condition & Results of Operations as well as in the Notes to Consolidated Financial Statements (Unaudited). You may find it helpful to refer back to this page as you read this report.

ALCO: Asset/Liability Management Committee.	KBCM: KeyBanc Capital Markets, Inc.
ALLL: Allowance for loan and lease losses.	KCC: Key Capital Corporation.
A/LM: Asset/liability management.	KCDC: Key Community Development Corporation.
AOCI: Accumulated other comprehensive income (loss).	KEF: Key Equipment Finance.
APBO: Accumulated postretirement benefit obligation.	KEF: Key Equipment Finance.
ASC: Accounting Standards Codification.	KIBS: Key Insurance & Benefits Services, Inc.
Austin: Austin Capital Management, Ltd.	KMS: Key Merchant Services, LLC.
BHCs: Bank holding companies.	KPP: Key Principal Partners.
Board: KeyCorp Board of Directors.	KREEC: Key Real Estate Equity Capital, Inc.
Cain Brothers: Cain Brothers & Company, LLC.	LCR: Liquidity coverage ratio.
CCAR: Comprehensive Capital Analysis and Review.	LIBOR: London Interbank Offered Rate.
CMBS: Commercial mortgage-backed securities.	LIHTC: Low-income housing tax credit.
CME: Chicago Mercantile Exchange.	LTV: Loan-to-value.
CMO: Collateralized mortgage obligation.	Moody’s: Moody’s Investor Services, Inc.
Common Shares: KeyCorp common shares, \$1 par value.	MRC: Market Risk Committee.
DIF: Deposit Insurance Fund of the FDIC.	MRM: Market Risk Management group.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.	N/A: Not applicable.
EBITDA: Earnings before interest, taxes, depreciation, and amortization.	NASDAQ: The NASDAQ Stock Market LLC.
EPS: Earnings per share.	NAV: Net asset value.
ERISA: Employee Retirement Income Security Act of 1974.	N/M: Not meaningful.
ERM: Enterprise risk management.	NMTC: New market tax credit.
EVE: Economic value of equity.	NOW: Negotiable Order of Withdrawal.
FASB: Financial Accounting Standards Board.	NPR: Notice of proposed rulemaking.
FDIC: Federal Deposit Insurance Corporation.	NYSE: New York Stock Exchange.
Federal Reserve: Board of Governors of the Federal Reserve System.	OCC: Office of the Comptroller of the Currency.
FHLB: Federal Home Loan Bank of Cincinnati.	OCI: Other comprehensive income (loss).
FHLMC: Federal Home Loan Mortgage Corporation.	OREO: Other real estate owned.
FICO: Fair Isaac Corporation.	OTTI: Other-than-temporary impairment.
First Niagara: First Niagara Financial Group, Inc.	PBO: Projected benefit obligation.
FNMA: Federal National Mortgage Association, or Fannie Mae.	PCI: Purchased credit impaired.
FSOC: Financial Stability Oversight Council.	S&P: Standard and Poor’s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
GAAP: U.S. generally accepted accounting principles.	SEC: U.S. Securities and Exchange Commission.
GNMA: Government National Mortgage Association, or Ginnie Mae.	TCJ Act: Tax Cuts and Jobs Act.
HelloWallet: HelloWallet, LLC.	TDR: Troubled debt restructuring.
HTC: Historic tax credit.	TE: Taxable-equivalent.
	U.S. Treasury: United States Department of the Treasury.
	VaR: Value at risk.
	VEBA: Voluntary Employee Beneficiary Association.

ISDA: International Swaps and Derivatives Association. VIE: Variable interest entity.
KAHC: Key Affordable Housing Corporation.

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

Table of contents

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 and industrial loans;
- the extensive regulation of the U.S. financial services industry;
- changes in accounting policies, standards, and interpretations;
- operational or risk management failures by us or critical third parties;
- breaches of security or failures of our technology systems due to technological or other factors and cybersecurity threats;
- negative outcomes from claims or litigation;
- failure or circumvention of our controls and procedures;
- the occurrence of natural or man-made disasters, conflicts, or terrorist attacks, or other adverse external events;
- evolving capital and liquidity standards under applicable regulatory rules;
- disruption of the U.S. financial system;
- 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, including the impact of the TCJ Act;
- 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 from banks and non-banks;
- 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 2017 Form 10-K and any subsequent reports filed with the SEC by Key as well as 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.

6

Table of contents**Selected financial data**

Our financial performance for each of the last five quarters is summarized in Figure 1.

Figure 1. Selected Financial Data

	2018			2017		Nine months ended September 30,		
	Third	Second	First	Fourth	Third	2018	2017	
<i>dollars in millions, except per share amounts</i>								
FOR THE PERIOD								
Interest income	\$ 1,239	\$ 1,205	\$ 1,137	\$ 1,114	\$ 1,109	\$ 3,581	\$ 3,276	
Interest expense	253	226	193	176	161	672	437	
Net interest income	986	979	944	938	948	2,909	2,839	
Provision for credit losses	62	64	61	49	51	187	180	
Noninterest income	609	660	601	656	592	1,870	1,822	
Noninterest expense	964	993	1,006	1,098	992	2,963	3,000	
Income (loss) from continuing operations before income taxes	569	582	478	447	497	1,629	1,481	
Income (loss) from continuing operations attributable to Key	482	479	416	195	363	1,377	1,094	
Income (loss) from discontinued operations, net of taxes	—	3	2	1	1	5	6	
Net income (loss) attributable to Key	482	482	418	196	364	1,382	1,100	
Income (loss) from continuing operations attributable to Key common shareholders	468	464	402	181	349	1,334	1,038	
Income (loss) from discontinued operations, net of taxes	—	3	2	1	1	5	6	
Net income (loss) attributable to Key common shareholders	468	467	404	182	350	1,339	1,044	
PER COMMON SHARE								
Income (loss) from continuing operations attributable to Key common shareholders	\$.45	\$.44	\$.38	\$.17	\$.32	\$ 1.28	\$.96	
Income (loss) from discontinued operations, net of taxes	—	—	—	—	—	.01	.01	
Net income (loss) attributable to Key common shareholders ^(a)	.45	.44	.38	.17	.32	1.27	.97	
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	.45	.44	.38	.17	.32	1.26	.95	
Income (loss) from discontinued operations, net of taxes — assuming dilution	—	—	—	—	—	.01	.01	
Net income (loss) attributable to Key common shareholders — assuming dilution ^(a)	.45	.44	.38	.17	.32	1.26	.96	
Cash dividends paid	.17	.12	.105	.105	.095	.395	.275	
Book value at period end	13.33	13.29	13.07	13.09	13.18	13.33	13.18	
Tangible book value at period end	10.59	10.59	10.35	10.35	10.52	10.59	10.52	
Market price:								
High	21.91	21.05	22.40	20.58	19.48	22.40	19.37	
Low	19.38	18.72	19.00	17.40	16.28	18.72	16.47	
Close	19.89	19.54	19.55	20.17	18.82	19.89	18.82	
Weighted-average common shares outstanding (000)	1,036,479	1,052,652	1,056,037	1,062,348	1,073,390	1,048,397	1,075,296	
Weighted-average common shares and potential common shares outstanding (000) ^(b)	1,049,976	1,065,793	1,071,786	1,079,330	1,088,841	1,062,816	1,091,655	
AT PERIOD END								
Loans	\$ 89,268	\$ 88,222	\$ 88,089	\$ 86,405	\$ 86,492	\$ 89,268	\$ 86,492	
Earning assets	125,007	123,472	122,961	123,490	122,625	125,007	122,625	
Total assets	138,805	137,792	137,049	137,698	136,733	138,805	136,733	
Deposits	105,780	104,548	104,751	105,235	103,446	105,780	103,446	
Long-term debt	13,849	13,853	13,749	14,333	15,100	13,849	15,100	
Key common shareholders' equity	13,758	14,075	13,919	13,998	14,224	13,758	14,224	
Key shareholders' equity	15,208	15,100	14,944	15,023	15,249	15,208	15,249	
PERFORMANCE RATIOS — FROM CONTINUING OPERATIONS								
Return on average total assets	1.40	% 1.41	% 1.25	% .57	% 1.07	% 1.35	% 1.10	%
Return on average common equity	13.36	13.29	11.76	5.04	9.74	12.81	9.89	
Return on average tangible common equity ^(c)	16.81	16.73	14.89	6.35	12.21	16.16	12.36	

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Net interest margin (TE)	3.18	3.19	3.15	3.09	3.15	3.17	3.19
Cash efficiency ratio ^(c)	58.7	58.8	62.9	66.7	62.2	60.1	62.4
PERFORMANCE RATIOS — FROM CONSOLIDATED OPERATIONS							
Return on average total assets	1.39	% 1.40	% 1.24	% .57	% 1.06	% 1.35	% 1.09 %
Return on average common equity	13.36	13.37	11.82	5.07	9.77	12.86	9.95
Return on average tangible common equity ^(c)	16.81	16.84	14.97	6.39	12.25	16.22	12.43
Net interest margin (TE)	3.16	3.17	3.13	3.07	3.13	3.15	3.17
Loan-to-deposit ^(d)	87.0	86.9	86.9	84.4	86.2	87.0	86.2
CAPITAL RATIOS AT PERIOD END							
Key shareholders' equity to assets	10.96	% 10.96	% 10.90	% 10.91	% 11.15	% 10.96	% 11.15 %
Key common shareholders' equity to assets	9.93	10.21	10.16	10.17	10.40	9.93	10.40
Tangible common equity to tangible assets ^(c)	8.05	8.32	8.22	8.23	8.49	8.05	8.49
Common Equity Tier 1	9.95	10.13	9.99	10.16	10.26	9.95	10.26
Tier 1 risk-based capital	11.11	10.95	10.82	11.01	11.11	11.11	11.11
Total risk-based capital	12.99	12.83	12.73	12.92	13.09	12.99	13.09
Leverage	10.03	9.87	9.76	9.73	9.83	10.03	9.83
TRUST ASSETS							
Assets under management	\$ 40,575	\$ 39,663	\$ 39,003	\$ 39,588	\$ 38,660	\$ 40,575	\$ 38,660
OTHER DATA							
Average full-time-equivalent employees	18,150	18,376	18,540	18,379	18,548	18,354	18,427
Branches	1,166	1,177	1,192	1,197	1,208	1,166	1,208

(a) EPS may not foot due to rounding.

(b) Assumes conversion of Common Share options and other stock awards as applicable.

(c) See Figure 2 entitled "GAAP to Non-GAAP Reconciliations," which presents the computations of certain financial measures related to "tangible common equity" 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.

(d) Represents period-end consolidated total loans and loans held for sale divided by period-end consolidated total deposits.

Table of contents

Figure 2 presents certain non-GAAP financial measures related to “tangible common equity,” “return on tangible common equity,” “pre-provision net revenue,” “cash efficiency ratio,” 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 that these ratios may assist investors in analyzing Key’s capital position without regard to the effects of intangible assets and preferred stock. Since analysts and banking regulators may assess our capital adequacy using tangible common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 2 reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Figure 2 also shows the computation for and reconciliation of pre-provision net revenue, which is not formally defined by GAAP. We believe that eliminating the effects of the provision for credit losses makes it easier to analyze our results by presenting them on a more comparable basis.

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

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, nor as a substitute for analyses of results as reported under GAAP.

Table of contents**Figure 2. GAAP to Non-GAAP Reconciliations**

<i>dollars in millions</i>	Three months ended					Nine months ended	
	9/30/2018	6/30/2018	3/31/2018	12/31/2017	9/30/2017	9/30/2018	9/30/2017
Tangible common equity to tangible assets at period-end							
Key shareholders' equity (GAAP)	\$ 15,208	\$ 15,100	\$ 14,944	\$ 15,023	\$ 15,249		
Less: Intangible assets (a)	2,838	2,858	2,902	2,928	2,870		
Preferred Stock (b)	1,421	1,009	1,009	1,009	1,009		
Tangible common equity (non-GAAP)	\$ 10,949	\$ 11,233	\$ 11,033	\$ 11,086	\$ 11,370		
Total assets (GAAP)	\$ 138,805	\$ 137,792	\$ 137,049	\$ 137,698	\$ 136,733		
Less: Intangible assets (a)	2,838	2,858	2,902	2,928	2,870		
Tangible assets (non-GAAP)	\$ 135,967	\$ 134,934	\$ 134,147	\$ 134,770	\$ 133,863		
Tangible common equity to tangible assets ratio (non-GAAP)	8.05	% 8.32	% 8.22	% 8.23	% 8.49	%	
Average tangible common equity							
Average Key shareholders' equity (GAAP)	\$ 15,210	\$ 15,032	\$ 14,889	\$ 15,268	\$ 15,241	\$ 15,045	\$ 15,208
Less: Intangible assets (average) (c)	2,848	2,883	2,916	2,939	2,878	2,882	2,802
Preferred Stock (average)	1,316	1,025	1,025	1,025	1,025	1,123	1,175
Average tangible common equity (non-GAAP)	\$ 11,046	\$ 11,124	\$ 10,948	\$ 11,304	\$ 11,338	\$ 11,040	\$ 11,231
Return on average tangible common equity from continuing operations							
Net income (loss) from continuing operations attributable to Key common shareholders (GAAP)	\$ 468	\$ 464	\$ 402	\$ 181	\$ 349	\$ 1,334	\$ 1,038
Average tangible common equity (non-GAAP)	11,046	11,124	10,948	11,304	11,338	11,040	11,231
Return on average tangible common equity from continuing operations (non-GAAP)	16.81	% 16.73	% 14.89	% 6.35	% 12.21	% 16.16	% 12.36
Return on average tangible common equity consolidated							
Net income (loss) attributable to Key common shareholders (GAAP)	\$ 468	\$ 467	\$ 404	\$ 182	\$ 350	\$ 1,339	\$ 1,044
Average tangible common equity (non-GAAP)	11,046	11,124	10,948	11,304	11,338	11,040	11,231
Return on average tangible common equity consolidated (non-GAAP)	16.81	% 16.84	% 14.97	% 6.39	% 12.25	% 16.22	% 12.43
Pre-provision net revenue							
Net interest income (GAAP)	\$ 986	\$ 979	\$ 944	\$ 938	\$ 948	\$ 2,909	\$ 2,839
Plus: Taxable-equivalent adjustment	7	8	8	14	14	23	39
Noninterest income (GAAP)	609	660	601	656	592	1,870	1,822
Less: Noninterest expense (GAAP)	964	993	1,006	1,098	992	2,963	3,000
Pre-provision net revenue from continuing operations (non-GAAP)	\$ 638	\$ 654	\$ 547	\$ 510	\$ 562	\$ 1,839	\$ 1,700
Cash efficiency ratio							
Noninterest expense (GAAP)	\$ 964	\$ 993	\$ 1,006	\$ 1,098	\$ 992	\$ 2,963	\$ 3,000
Less: Intangible asset amortization	23	25	29	26	25	77	69
Adjusted noninterest expense (non-GAAP)	\$ 941	\$ 968	\$ 977	\$ 1,072	\$ 967	\$ 2,886	\$ 2,931
Net interest income (GAAP)	\$ 986	\$ 979	\$ 944	\$ 938	\$ 948	\$ 2,909	\$ 2,839
Plus: Taxable-equivalent adjustment	7	8	8	14	14	23	39
Noninterest income (GAAP)	609	660	601	656	592	1,870	1,822
Total taxable-equivalent revenue (non-GAAP)	\$ 1,602	\$ 1,647	\$ 1,553	\$ 1,608	\$ 1,554	\$ 4,802	\$ 4,700
Cash efficiency ratio (non-GAAP)	58.7	% 58.8	% 62.9	% 66.7	% 62.2	% 60.1	% 62.4

Three months ended September 30, 2018**Common Equity Tier 1 under the Regulatory Capital Rules (estimates)**

Common Equity Tier 1 under current Regulatory Capital Rules	\$ 12,235
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:	
Deferred tax assets and other intangible assets ^(d)	—
Common Equity Tier 1 anticipated under the fully phased-in Regulatory Capital Rules ^(e)	\$ 12,235

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Net risk-weighted assets under current Regulatory Capital Rules	\$ 122,908	
Adjustments from current Regulatory Capital Rules to the fully phased-in Regulatory Capital Rules:		
Mortgage servicing assets ^(f)	755	
Deferred tax assets	276	
Total risk-weighted assets anticipated under the fully phased-in Regulatory Capital Rules ^(e)	\$ 123,939	
Common Equity Tier 1 ratio under the fully phased-in Regulatory Capital Rules ^(e)	9.87	%

(a) For the three months ended September 30, 2018, June 30, 2018, March 31, 2018, December 31, 2017, and September 30, 2017, intangible assets exclude \$17 million, \$20 million, \$23 million, \$26 million, and \$30 million, respectively, of period-end purchased credit card receivables.

(b) Net of capital surplus.

For the three months ended September 30, 2018, June 30, 2018, March 31, 2018, December 31, 2017, and September 30, 2017, average intangible assets exclude \$18 million, \$21 million,

(c) \$24 million, \$28 million, and \$32 million, respectively, of average purchased credit card receivables. For the nine months ended September 30, 2018, and September 30, 2017, average intangible assets exclude \$21 million and \$36 million, respectively, of average purchased credit card receivables.

(d) Includes the deferred tax assets subject to future taxable income for realization, primarily tax credit carryforwards, as well as intangible assets (other than goodwill and mortgage servicing assets) subject to the transition provisions of the final rule.

(e) 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."

(f) Item is included in the 10%/15% exceptions bucket calculation and is risk-weighted at 250%.

Long-term financial targets

Our long-term financial targets are as follows:

- Generate positive operating leverage and a cash efficiency ratio in the range of 54.0% to 56.0%;
- Maintain a moderate risk profile by targeting a net loan charge-offs to average loans ratio in the range of .40% to .60%; and

Table of contents

Achieve a return on tangible common equity ratio in the range of 16.00% to 19.00%.

Figure 3 shows the evaluation of our long-term financial targets for the three and nine months ended September 30, 2018.

Figure 3. Evaluation of Our Long-Term Targets

	Key Metrics ^(a)	3Q18	YTD 2018	Targets
Positive operating leverage	Cash efficiency ratio ^(b)	58.7	%60.1	%54.0 - 56.0%
Moderate Risk Profile	Net loan charge-offs to average loans	.27	%.26	%.40 - .60%
Financial Returns	Return on average tangible common equity ^(b)	16.81%	16.16	%16.00 - 19.00%

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

(b) Non-GAAP measure; see Figure 2 entitled "GAAP to Non-GAAP Reconciliations" for reconciliation.

Strategic developments

Our actions and results during the third quarter of 2018 supported our corporate strategy described in the "Introduction" section under the "Corporate strategy" heading on page 38 of our 2017 Form 10-K.

We continued to **grow profitably** during the third quarter of 2018. Our cash efficiency ratio improved to 58.7%, a decrease of over 300 basis points when compared to the year-ago quarter. This improvement was driven by an increase in both net interest income and noninterest income, with total revenue increasing 3.1% when compared to the third quarter of 2017. Net interest income benefited from higher interest rates and earning asset balances. Noninterest income saw an increase from the same period one year ago because of our continued investment in our differentiated business model.

Our 2017 acquisitions of Cain Brothers and KMS as well as continued strength in our core businesses contributed to the increase in noninterest income during the third quarter of 2018 compared to the year-ago quarter as we **acquire and expand targeted client relationships**. Investment banking and debt placement fees grew \$25 million from the year-ago quarter, benefiting from organic growth and the Cain Brothers acquisition. Excluding the impact of the new revenue recognition accounting standard, cards and payments income increased due to growth in credit and debit card fees, purchase and prepaid card fees, and merchant services income.

During the third quarter of 2018, we **effectively managed risk and rewards** as net loan charge-offs were .27% of average loans, below our targeted range. While net loan charge-offs for the three months ended September 30, 2018, increased from the same period one year ago, this was primarily due to a large recovery that occurred in the third quarter of 2017.

Maintaining financial strength while driving long-term shareholder value was again a focus during the third quarter of 2018. At September 30, 2018, our Common Equity Tier 1 and Tier 1 risk-based capital ratios stood at 9.95% and 11.11%, respectively. Consistent with our 2018 Capital Plan, we completed \$542 million of common share repurchases. The Board also declared an increase to our common share dividend, up to \$.17 per share from \$.12 during the quarter, consistent with our 2018 Capital Plan. In total, we have completed \$3.4 billion of common share repurchases since 2012.

During the third quarter, we were recognized by G.I. Jobs and Military Spouse magazines as a Military Friendly® and Military Friendly® Spouse Employer. Also, during the third quarter, we received the Leading Disability Employer Seal from the National Organization on Disability. In September, we hosted the 2018 KeyBank Supplier Summit to lead the conversation on supplier diversity. These awards and initiatives highlight our strategy to **engage a high-performing, talented, and diverse workforce**.

Table of contents

Demographics

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

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit and investment, lending, mortgage and home equity, credit card, and personalized wealth management products and business advisory services. Key Community Bank also purchases retail auto sales contracts via a network of auto dealerships. These products and services are provided through 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.

Supervision and regulation

The following discussion provides a summary of recent regulatory developments and should be read in conjunction with the disclosure included in our 2017 Form 10-K under the heading “Supervision and Regulation” in Item 1. Business and under the heading “II. Compliance Risk” in Item 1A. Risk Factors.

Regulatory capital requirements

The final rule to implement the Basel III international capital framework (“Basel III”) was effective January 1, 2015, with a multi-year transition period ending on December 31, 2018 (“Regulatory Capital Rules”). The Basel III capital framework and the U.S. implementation of the Basel III capital framework are discussed in more detail in Item 1. Business of our 2017 Form 10-K under the heading “Supervision and Regulation - Regulatory capital requirements.”

Under the Regulatory Capital Rules, standardized approach banking organizations, such as KeyCorp and KeyBank, are required to meet the minimum capital and leverage ratios set forth in Figure 4 below. At September 30, 2018, Key had an estimated Common Equity Tier 1 Capital Ratio of 9.87% under the fully phased-in Regulatory Capital Rules. Also, at September 30, 2018, 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 Figure 4.

Figure 4. Pro Forma Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In Regulatory Capital Rules

Ratios (including capital conservation buffer)	Key September 30, 2018 Pro forma	Minimum Phase-in January 1, 2018	Minimum January 1, 2019

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Common Equity Tier 1 ^(a)	9.87	%	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	11.02	%	6.0		None	6.0	
Tier 1 Capital + Capital conservation buffer			6.0		1/1/16-1/1/19	8.5	
Total Capital	12.89	%	8.0		None	8.0	
Total Capital + Capital conservation buffer			8.0		1/1/16-1/1/19	10.5	
Leverage ^(c)	10.03	%	4.0		None	4.0	

^(a) See Figure 2 entitled "GAAP to Non-GAAP Reconciliations," which presents the computation of Common Equity Tier 1 capital under the fully phased-in regulatory capital rules.

^(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 became effective January 1, 2018.

Table of contents*Revised prompt corrective action framework*

The federal prompt corrective action (“PCA”) framework under the FDIA groups 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 United States, 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 framework table in Figure 5 identifies the capital category thresholds for a “well capitalized” and an “adequately capitalized” institution under the Prompt Corrective Action Framework.

Figure 5. "Well Capitalized" and "Adequately Capitalized" Capital Category Ratios under Revised PCA Framework

Prompt Corrective Action Ratio	Capital Category	
	Well Capitalized	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 became effective January 1, 2018.

We believe that, as of September 30, 2018, KeyBank (consolidated) satisfied the risk-based and leverage capital requirements necessary to be considered “well capitalized” for purposes of the PCA 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.

Recent regulatory capital-related developments

On September 27, 2017, the federal banking agencies issued a joint proposal to simplify certain aspects of the Regulatory Capital Rules for standardized approach banking organizations (the “Simplification Proposal”), including Key. In anticipation of the Simplification Proposal, on August 22, 2017, the agencies issued a companion proposal to extend the current capital treatment for certain items that are part of the Simplification Proposal and also subject to the multi-year transition period for the Regulatory Capital Rules, which ends on December 31, 2018 (the “Transitions Proposal”). The Transitions Proposal was published as a final rule in the Federal Register on November 21, 2017, and is expected to alleviate the burden that would have resulted from the continued phase-in of those capital requirements as the agencies seek public comment on and work to finalize the Simplification Proposal. The Simplification Proposal and the Transitions Proposal are discussed in more detail in Item 1. Business of our 2017 Form 10-K under the heading “Supervision and Regulation - Regulatory capital requirements - Recent regulatory capital-related developments.”

In December 2017, the Basel Committee released its final revisions to Basel III. The revisions seek to restore credibility in the calculation of risk-weighted assets and improve the comparability of regulatory capital ratios across banking organizations. The revisions are discussed in more detail in Item 1. Business of our 2017 Form 10-K under the heading “Supervision and Regulation - Regulatory capital requirements - Recent regulatory capital-related developments.”

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

Subsequently, in February 2018, the Basel Committee released for public consultation a proposal to update the Pillar 3 disclosure framework, to more appropriately align it to the changes adopted under the Basel Committee's final revisions to Basel III. The public consultation period ended on May 25, 2018. Before any action is taken by the

Table of contents

federal banking agencies with respect to the revised Pillar 3 disclosure framework, it first must be adopted in final form by the Basel Committee, and the federal agencies must determine whether and to what extent they will implement the final revisions to Basel III released by the Basel Committee in December 2017.

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

Capital planning and stress testing

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

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

Under the proposed rule, a banking organization would not be subject to any limitations on capital distributions and discretionary bonus payments if it satisfies all minimum capital requirements and its capital conservation requirement (as amended to incorporate the stress capital buffer), stress leverage buffer requirement, and, if applicable, the advanced approaches capital conservation buffer requirement and supplementary leverage ratio standard (the latter two of which do not apply to KeyCorp). If it is adopted as a final rule, the proposal would be effective December 31, 2018; however, the stress capital buffer and stress leverage buffer requirements would generally not be effective until October 1, 2019. The comment period for this proposal ended on June 25, 2018. Key expects that the proposal would have a marginally favorable impact on its capital requirements.

Liquidity requirements

In October 2014, the federal banking agencies published a final rule to implement the Basel III liquidity coverage ratio (“Basel III LCR”) for U.S. banking organizations (the “Liquidity Coverage Rules”) that establishes 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 was required to satisfy a minimum Modified LCR requirement of 100% by January 1, 2017. At September 30, 2018, Key’s Modified LCR was above 100%. In the future, KeyCorp may change the composition of our investment portfolio,

Table of contents

increase the size of the overall investment portfolio, and modify product offerings to enhance or optimize our liquidity position.

Net stable funding ratio

The federal banking agencies commenced the U.S. implementation of the Basel III net stable funding ratio (“NSFR”) in April and May 2016, with the release of a proposed rule to implement a 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 was scheduled to be effective on January 1, 2018; however, it has not been adopted in final form. 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.

Resolution and recovery planning

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 efficiently 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 unless the requirement to submit the plans is deferred by the regulators. On December 1, 2017, KeyCorp submitted its resolution plan to the Federal Reserve and the FDIC. KeyBank submitted its resolution plan to the FDIC on June 20, 2018. KeyCorp will not be required to submit a resolution plan for 2018 because the FDIC and Federal Reserve deferred such requirement (for 14 firms, including KeyCorp) until December 2019. KeyBank will not be required to submit a resolution plan in 2019 because the FDIC extended the next filing due date for all depository institution resolution plan submissions until no sooner than July 1, 2020. 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. The public sections of the resolution plans of KeyCorp and KeyBank are available at <http://www.federalreserve.gov/supervisionreg/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. Because KeyBank had average total consolidated assets of greater than \$100 billion but less than \$750 billion as reported on KeyBank’s Consolidated Reports of Condition and Income for the four most recent consecutive quarters prior to January 1, 2017, it was required to be in compliance with the guidelines not later than January 1, 2018. We believe that KeyBank is in compliance with the guidelines. On September 19, 2018, the OCC

issued a proposal to amend its recovery planning guidelines to increase, from \$50 billion to \$250 billion, the asset threshold for applying the guidelines to national banks. Comments on this proposal are due by November 5, 2018. If this proposal is adopted, KeyBank will no longer be subject to the guidelines.

Economic Growth, Regulatory Relief, and Consumer Protection Act

On May 24, 2018, President Trump signed the Economic Growth, Regulatory Relief, and Consumer Protection Act (“EGRRCPA”) into law. EGRRCPA made certain amendments to the Dodd-Frank Act and other federal banking laws. EGRRCPA raised, from \$50 billion to \$250 billion, the asset threshold above which the Federal Reserve is required to apply to BHCs enhanced prudential standards (including supervisory and company-run stress tests, resolution plan requirements, single counterparty credit limits, risk management requirements, and liquidity requirements) and early remediation requirements (collectively, “EPSs”). EPSs, which were imposed by Sections

Table of contents

165 and 166 of the Dodd-Frank Act, are discussed in more detail in Item 1. Business of our 2017 Form 10-K under the heading “Supervision and Regulation - Other Regulatory Developments under the Dodd-Frank Act - Enhanced prudential standards and early remediation requirements.”

EGRRCPA raised the asset threshold for applying EPSs to BHCs in two stages. BHCs having total consolidated assets less than \$100 billion were no longer subject to such EPSs immediately upon enactment of this statute. BHCs having at least \$100 billion but less than \$250 billion in total consolidated assets (like KeyCorp) will be no longer subject to these requirements as of 18 months after the date of enactment. However, under this statute, the Federal Reserve is required, after the end of this 18-month period, to conduct periodic supervisory stress tests of BHCs with assets between \$100 billion and \$250 billion (like KeyCorp), and the requirement for a publicly traded BHC to have a risk committee continues to apply if a BHC has assets of at least \$50 billion. In addition, EGRRCPA gives the Federal Reserve the authority, following certain notice and comment procedures, to continue to apply other EPSs to any such firm or firms (including KeyCorp) if it determines that the application of the EPS is appropriate to prevent or mitigate risks to financial stability or to promote the safety and soundness of the BHC or BHCs, taking into consideration the BHC’s or BHCs’ capital structure, riskiness, complexity, financial activities, size, and other relevant factors. The Federal Reserve is also authorized to exempt any BHC with assets between \$100 billion and \$250 billion from any EPS prior to the end of the 18-month period following enactment of EGRRCPA.

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

In addition to raising the asset threshold for the application of EPSs to BHCs, EGRRCPA raised the asset threshold that triggers the requirement in Section 165(i)(2) of the Dodd-Frank Act for federally regulated banks (like KeyBank) to conduct company-run stress tests on an annual basis from \$10 billion to \$250 billion in total consolidated assets. This provision is effective 18 months after the date of enactment of EGRRCPA.

EGRRCPA also amended the capital requirements for certain acquisition, development, and construction (“ADC”) loans. This statute allows the federal banking agencies to require depository institutions to assign a heightened risk weight to a high volatility commercial real estate (“HVCRE”) exposure under the Regulatory Capital Rules only if such exposure comes within the definition of an HVCRE ADC Loan as defined in EGRRCPA. The effect of this provision is to narrow the scope of exposures subject to a heightened risk weight. On July 6, 2018, the federal banking agencies issued a statement providing depository institutions (including KeyBank) and BHCs (including KeyCorp) with interim guidance concerning the application of this provision. On September 18, 2018, the federal banking agencies released a proposal to amend their regulatory capital rules to revise the definition of an HVCRE exposure to conform to the statutory definition of an HVCRE ADC Loan and requested comment on various interpretive issues relating to this proposal. This proposal was published in the Federal Register on September 28, 2018, with comments due by November 27, 2018.

Single counterparty credit limits

On June 14, 2018, the Federal Reserve released a final rule establishing single counterparty credit limits for BHCs with \$250 billion or more in total consolidated assets. The final rule, which implements Section

165(e) of the Dodd-Frank Act, limits the aggregate net credit exposure of such a BHC to a single counterparty to 25% of the BHC's tier 1 capital and limits the aggregate net credit exposure of a global systemically important bank ("GSIB") to another GSIB to 15% of the GSIB's tier 1 capital. Although the final rule does not apply to KeyCorp, the Federal Reserve said that it will consider, at a later date, the extent to which credit exposure limits or other EPSs should be applied to BHCs with assets between \$100 billion and \$250 billion (such as KeyCorp).

Volcker Rule

On June 5, 2018, five federal agencies announced that they are requesting public comment on a proposal that would amend the 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 is discussed in more detail in Item 1. Business of our

Table of contents

2017 Form 10-K under the heading “Supervision and Regulation - Other Regulatory Developments under the Dodd-Frank Act - Volcker Rule.”

The stated objective of the new proposal is to simplify and tailor compliance requirements relating to the Volcker Rule. Among other things, the new proposal would (1) tailor the rule’s compliance requirements based on the size of a firm’s trading assets and liabilities; (2) revise the term “trading account” by replacing the short-term intent-based prong with a new accounting-based prong; (3) modify the eligibility criteria for a banking entity to be able to rely on certain exemptions from the proprietary trading and covered fund prohibitions; and (4) simplify the trading activity information that a banking entity is required to provide to the agencies. In addition to requesting comment on the proposed changes, the five agencies requested comment on a large number of specific questions on various issues concerning implementation of the Volcker Rule. The proposal was published in the Federal Register on July 17, 2018, with a 60-day comment period. The comment period was later extended to October 17, 2018.

Deposit insurance and assessments

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) in order to facilitate rapid payment of insured deposits to customers if the institutions 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 bank’s chief executive officer, and a deposit insurance coverage summary report on or before the mandatory compliance date and annually thereafter. The final rule became effective on April 1, 2017, with a mandatory compliance date of April 1, 2020. The FDIC has been releasing Frequently Asked Questions on a rolling basis, and has committed to continue this practice as institutions subject to the rule present issues associated with its implementation that require FDIC consultation.

ERISA fiduciary standard

In April 2016, the Department of Labor published final rules and amendments to certain prohibited transaction exemptions regarding service providers who 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 the rules were to place fiduciary obligations, rather than the lesser legal obligations that currently apply, on these service providers. On March 15, 2018, the

United States Court of Appeals for the Fifth Circuit invalidated the rule in its entirety and issued a mandate on June 21, 2018, invalidating the rule on a nationwide basis.

Community Reinvestment Act

The Community Reinvestment Act (“CRA”) was enacted in 1977 to encourage depository institutions to help meet the credit needs of the communities that they serve, including low- and moderate-income (“LMI”) neighborhoods, consistent with the institutions’ safe and sound operations. The CRA requires the federal banking agencies to assess the record of each institution that it supervises in meeting the credit needs of its entire community, including LMI neighborhoods.

On September 5, 2018, the OCC published in the Federal Register an advance notice of proposed rulemaking (“ANPR”) requesting public input on ways to revise the agency’s CRA regulations to update the framework by which the OCC assesses a bank’s CRA performance. The OCC stated that the purpose of updating the agency’s CRA

Table of contents

regulations is to encourage more community and economic development in areas that need it most, bring greater clarity, consistency and certainty to the CRA evaluation process, and provide flexibility to accommodate banks with different business strategies. The OCC invited comments on a number of questions, including ones that concern the use of a metrics-based framework, the redefinition of assessment areas, and the expansion of CRA-qualifying activities. Comments on the ANPR are due by November 19, 2018. Any revision to the OCC's CRA regulations would apply to national banks, including KeyBank.

Results of Operations

Earnings overview

The following chart provides a reconciliation of net income from continuing operations attributable to Key common shareholders for the three months ended September 30, 2017, to the three months ended September 30, 2018 (dollars in millions):

The following discussion explains the key factors that caused these elements to change.

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;
- asset quality; and
- fair value accounting of acquired earning assets and interest-bearing liabilities.

To make it easier to compare both the results across 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 "TE basis" (i.e., as if all income were taxable and at the same rate). For example, \$100 of tax-exempt income would be presented as \$126, an amount that, if taxed at the statutory federal income tax rate of 21%, would yield \$100. Prior to 2018, \$100 of tax-exempt income would be presented as \$154, an amount that, if taxed at the previous statutory federal income tax rate of 35%, would yield \$100.

Figure 6 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five quarters. This figure also presents a reconciliation of TE net interest

Table of contents

income to net interest income reported in accordance with GAAP for each of those quarters. The net interest margin, which is an indicator of the profitability of the earning assets portfolio less cost of funding, is calculated by dividing annualized TE net interest income by average earning assets.

TE net interest income was \$993 million for the third quarter of 2018, and the net interest margin was 3.18%, compared to TE net interest income of \$962 million and a net interest margin of 3.15% for the third quarter of 2017, reflecting the benefit from higher interest rates and higher earning asset balances. Third quarter 2018 net interest income included \$26 million of purchase accounting accretion, a decline of \$22 million from the third quarter of 2017. For the fourth quarter of 2018, we expect net interest income to be up 1% to 3% compared to the third quarter of 2018.

For the nine months ended September 30, 2018, TE net interest income was \$2.9 billion and the net interest margin was 3.17%. Compared to the same period last year, net interest income increased \$54 million and the net interest margin decreased two basis points. Both net interest income and the net interest margin in 2018 benefited from higher interest rates and higher earning asset balances. These benefits were partially offset by higher wholesale funding costs, in addition to a continued expected decline in purchase accounting accretion.

Average loans were \$88.5 billion for the third quarter of 2018, an increase of \$1.7 billion compared to the third quarter of 2017, reflecting broad-based growth in commercial and industrial loans, partially offset by higher paydowns in commercial real estate balances and home equity lines of credit. For the fourth quarter of 2018, we expect average loans to be up 1% to 3% compared to the third quarter of 2018.

Average deposits totaled \$105.6 billion for the third quarter of 2018, an increase of \$2.5 billion compared to the year-ago quarter, reflecting growth in higher-yielding deposit products, as well as strength in our retail banking franchise and growth from commercial relationships. For the fourth quarter of 2018, we expect average deposits to be within 2% of our third quarter of 2018 results.

Table of contents**Figure 6. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates and Components of Net Interest Income Changes from Continuing Operations**

<i>dollars in millions</i>	Three months ended September 30, 2018			Three months ended September 30, 2017			Change in Net interest income due to		
	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Volume	Rate	Total
ASSETS									
Loans ^{(b), (c)}									
Commercial and industrial ^(d)	\$ 44,749	\$ 495	4.39 %	\$ 41,416	\$ 414	3.97 %	\$ 35	\$ 46	\$ 81
Real estate — commercial mortgage	14,268	176	4.89	14,850	169	4.51	(7)	14	7
Real estate — construction	1,759	22	5.05	2,054	23	4.51	(4)	3	(1)
Commercial lease financing	4,444	43	3.88	4,694	46	3.89	(2)	(1)	(3)
Total commercial loans	65,220	736	4.49	63,014	652	4.11	22	62	84
Real estate — residential mortgage	5,466	55	3.99	5,493	54	3.92	—	1	1
Home equity loans	11,415	137	4.80	12,314	136	4.41	(10)	11	1
Consumer direct loans	1,789	35	7.71	1,774	33	7.26	—	2	2
Credit cards	1,095	32	11.43	1,049	30	11.34	1	1	2
Consumer indirect loans	3,482	37	4.25	3,170	37	4.64	3	(3)	—
Total consumer loans	23,247	296	5.06	23,800	290	4.85	(6)	12	6
Total loans	88,467	1,032	4.64	86,814	942	4.31	16	74	90
Loans held for sale	1,117	12	4.59	1,607	17	4.13	(5)	—	(5)
Securities available for sale ^{(b), (e)}	17,631	102	2.22	18,574	91	1.96	(5)	16	11
Held-to-maturity securities ^(b)	12,065	72	2.40	10,469	55	2.12	9	8	17
Trading account assets	787	7	3.37	889	7	2.74	(1)	1	—
Short-term investments	2,928	15	1.93	2,166	6	1.21	3	6	9
Other investments ^(e)	685	6	3.27	728	5	2.46	—	1	1
Total earning assets	123,680	1,246	3.98	121,247	1,123	3.68	17	106	123
Allowance for loan and lease losses	(886)			(868)					
Accrued income and other assets	13,935			13,977					
Discontinued assets	1,186			1,417					
Total assets	\$ 137,915			\$ 135,773					
LIABILITIES									
NOW and money market deposit accounts	\$ 56,391	82	.58	\$ 53,826	37	.27	2	43	45
Savings deposits	5,413	3	.20	6,697	5	.25	(1)	(1)	(2)
Certificates of deposit (\$100,000 or more)	8,186	38	1.86	6,402	21	1.31	7	10	17
Other time deposits	5,026	17	1.40	4,664	9	.81	1	7	8
Total interest-bearing deposits	75,016	140	.74	71,589	72	.40	9	59	68
Federal funds purchased and securities sold under repurchase agreements	552	1	1.00	456	—	.23	—	1	1
Bank notes and other short-term borrowings	596	4	2.76	865	3	1.49	(1)	2	1
Long-term debt ^{(f), (g)}	12,678	108	3.34	12,631	86	2.75	—	22	22
Total interest-bearing liabilities	88,842	253	1.13	85,541	161	.75	8	84	92
Noninterest-bearing deposits	30,610			31,516					
Accrued expense and other liabilities	2,065			2,057					
Discontinued liabilities (g)	1,186			1,417					
Total liabilities	122,703			120,531					
EQUITY									
Key shareholders' equity	15,210			15,241					
Noncontrolling interests	2			1					
Total equity	15,212			15,242					

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Total liabilities and equity	\$ 137,915		\$ 135,773				
Interest rate spread (TE)		2.85 %		2.93 %			
Net interest income (TE) and net interest margin (TE)	993	3.18 %	962	3.15 %	\$ 9	\$ 22	31
TE adjustment ^(b)	7		14				
Net interest income, GAAP basis	\$ 986		\$ 948				

- (a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g), calculated using a matched funds transfer pricing methodology. Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 21% and 35% for the three months ended
- (b) September 30, 2018, and September 30, 2017, respectively.
- (c) For purposes of these computations, nonaccrual loans are included in average loan balances.
- (d) Commercial and industrial average balances include \$128 million and \$117 million of assets from commercial credit cards for the three months ended September 30, 2018, and September 30, 2017, respectively.
- (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.

Table of contents**Figure 6. Consolidated Average Balance Sheets, Net Interest Income, and Yields/Rates and Components of Net Interest Income Changes from Continuing Operations**

<i>dollars in millions</i>	Nine months ended September 30, 2018			Nine months ended September 30, 2017			Change in Net interest income due to		
	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Volume	Yield/Rate	Total
ASSETS									
Loans ^{(b), (c)}									
Commercial and industrial ^(d)	\$ 44,178	\$ 1,414	4.28 %	\$ 40,700	\$ 1,196	3.93 %	\$ 107	\$ 111	\$ 218
Real estate — commercial mortgage	14,137	513	4.85	15,043	520	4.62	(32)	25	(7)
Real estate — construction	1,834	67	4.88	2,203	80	4.86	(13)	—	(13)
Commercial lease financing	4,552	125	3.67	4,673	140	3.99	(4)	(11)	(15)
Total commercial loans	64,701	2,119	4.38	62,619	1,936	4.13	58	125	183
Real estate — residential mortgage	5,466	163	3.97	5,507	160	3.88	(1)	4	3
Home equity loans	11,629	406	4.67	12,465	402	4.32	(28)	32	4
Consumer direct loans	1,774	101	7.59	1,760	94	7.10	1	6	7
Credit cards	1,085	92	11.32	1,053	88	11.15	3	1	4
Consumer indirect loans	3,363	107	4.27	3,081	112	4.85	10	(15)	(5)
Total consumer loans	23,317	869	4.98	23,866	856	4.79	(15)	28	13
Total loans	88,018	2,988	4.54	86,485	2,792	4.31	43	153	196
Loans held for sale	1,226	40	4.40	1,293	39	4.01	(2)	3	1
Securities available for sale ^{(b), (e)}	17,653	294	2.14	18,582	276	1.96	(14)	32	18
Held-to-maturity securities ^(b)	12,111	213	2.35	10,311	161	2.08	30	22	52
Trading account assets	879	21	3.19	966	21	2.84	(2)	2	—
Short-term investments	2,334	31	1.76	1,918	14	1.00	4	13	17
Other investments ^(e)	706	17	3.10	708	12	2.20	—	5	5
Total earning assets	122,927	3,604	3.90	120,263	3,315	3.68	59	230	289
Allowance for loan and lease losses	(879)	)		(862))				
Accrued income and other assets	13,966			13,801					
Discontinued assets	1,243			1,477					
Total assets	\$ 137,257			\$ 134,679					
LIABILITIES									
NOW and money market deposit accounts	\$ 54,891	187	.46	\$ 54,178	103	.25	1	83	84
Savings deposits	5,971	13	.28	6,635	10	.19	(1)	4	3
Certificates of deposit (\$100,000 or more)	7,563	97	1.72	6,050	56	1.24	16	25	41
Other time deposits	4,947	46	1.25	4,673	27	.78	2	17	19
Total interest-bearing deposits	73,372	343	.63	71,536	196	.37	18	129	147
Federal funds purchased and securities sold under repurchase agreements	1,146	10	1.22	570	1	.27	2	7	9
Bank notes and other short-term borrowings	1,015	17	2.19	1,291	12	1.27	(3)	8	5
Long-term debt ^{(f), (g)}	12,631	302	3.17	11,510	228	2.66	24	50	74
Total interest-bearing liabilities	88,164	672	1.02	84,907	437	.69	41	194	235
Noninterest-bearing deposits	30,701			31,123					
Accrued expense and other liabilities	2,102			1,962					
Discontinued liabilities (g)	1,243			1,478					
Total liabilities	122,210			119,470					
EQUITY									
Key shareholders' equity	15,045			15,208					
Noncontrolling interests	2			1					
Total equity	15,047			15,209					
Total liabilities and equity	\$ 137,257			\$ 134,679					

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Interest rate spread (TE)	2.88 %	2.99 %				
Net interest income (TE) and net interest margin (TE)	2,932	3.17 %	2,878	3.19 %	\$ 18	\$ 36 \$ 54
TE adjustment ^(b)	23		39			
Net interest income, GAAP basis	\$ 2,909		\$ 2,839			

(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 21% and 35% for the nine months ended September 30, 2018, and September 30, 2017, respectively.

(c) For purposes of these computations, nonaccrual loans are included in average loan balances.

(d) Commercial and industrial average balances include \$125 million and \$116 million of assets from commercial credit cards for the nine months ended September 30, 2018, and September 30, 2017, respectively.

(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 Key's matched funds transfer pricing methodology to discontinued operations.

Table of contents

Provision for credit losses

Our provision for credit losses was \$62 million for the three months ended September 30, 2018, compared to \$51 million for the three months ended September 30, 2017. The increase of \$11 million in our provision for credit losses was related to an increase in net loan-charge offs during the third quarter of 2018 compared to one year ago. For the fourth quarter of 2018, we expect the provision for credit losses and net loan charge-offs to remain relatively stable with our third quarter of 2018 results.

Noninterest income

As shown in Figure 7, noninterest income was \$609 million for the third quarter of 2018, compared to \$592 million for the year-ago quarter. Noninterest income represented 38% and 39% of total revenue for the three and nine months ended September 30, 2018, respectively, compared to 38% and 39% for the three and nine months ended September 30, 2017, respectively. For the fourth quarter of 2018, we expect noninterest income to be up 4% to 6% compared to the third quarter of 2018.

The following discussion explains the composition of certain elements of our noninterest income and the factors that caused those elements to change.

Figure 7. Noninterest Income

^(a) Other noninterest income includes operating lease income and other leasing gains, corporate services income, corporate-owned life insurance income, consumer mortgage income, mortgage servicing fees, and other income. See the "Consolidated Statements of Income" in Item 1. Financial Statements of this report.

Table of contentsTrust and investment services income

Trust and investment services income consists of brokerage commissions, trust and asset management fees, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 8. For the three months ended September 30, 2018, trust and investment services income decreased \$18 million, or 13.3%, compared to the same period one year ago. For the nine months ended September 30, 2018, trust and investment services income was down \$26 million, or 6.4%, from the nine months ended September 30, 2017. These decreases were primarily the result of the sale of KIBS in the second quarter of 2018 and lower equity and fixed income commissions in the Key Corporate Bank line of business.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At September 30, 2018, our bank, trust, and registered investment advisory subsidiaries had assets under management of \$40.6 billion, compared to \$38.7 billion at September 30, 2017. The increase in assets under management, as shown in Figure 8, was primarily attributable to market growth over the past 12 months.

Figure 8. Assets Under Management

<i>in millions</i>	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Assets under management by investment type:					
Equity	\$ 24,958	\$24,125	\$23,629	\$ 24,081	\$ 23,342
Securities lending	1,049	977	837	947	876
Fixed income	10,946	11,276	11,098	10,930	11,009
Money market	3,622	3,285	3,439	3,630	3,433
Total assets under management	\$ 40,575	\$39,663	\$39,003	\$ 39,588	\$ 38,660

Investment banking and debt placement fees

Investment banking and debt placement fees consists of syndication fees, debt and equity financing fees, financial adviser fees, gains on sales of commercial mortgages, and agency origination fees. Investment banking and debt placement fees increased \$25 million, or 17.7%, from the year-ago quarter. For the nine months ended September

Table of contents

30, 2018, investment banking and debt placement fees increased \$61 million, or 15.1%, from the nine months ended September 30, 2017. These increases were caused by growth in investment banking advisory fees, partially driven by the acquisition of Cain Brothers in the fourth quarter of 2017.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, decreased \$6 million, or 8.0%, from the year-ago quarter. For the nine months ended September 30, 2018, cards and payments income was down \$8 million, or 3.8%, from the nine months ended September 30, 2017. Cards and payments income and other expense were both impacted by the 2018 adoption of the revenue recognition accounting standard. The new accounting standard had no impact to net income during 2018. Excluding the impact of the new revenue recognition accounting standard, cards and payments income increased for the three and nine months ended September 30, 2018, due to growth in credit and debit card fees, purchase and prepaid card fees, and merchant services income.

Service charges on deposit accounts

Service charges on deposit accounts decreased \$6 million, or 6.6%, for the three months ended September 30, 2018, compared to the same period one year ago. For the nine months ended September 30, 2018, service charges on deposit accounts was down \$3 million, or 1.1%, from the nine months ended September 30, 2017.

Other noninterest income

Other noninterest income includes operating lease income and other leasing gains, corporate services income, corporate-owned life insurance income, consumer mortgage income, mortgage servicing fees, and other income. Other noninterest income increased \$22 million, or 14.7%, from the year-ago quarter. This increase was primarily attributable to an increase in operating lease income and other leasing gains due to higher volumes, as well as \$13 million of lease residual losses in the year-ago period.

For the nine months ended September 30, 2018, other noninterest income was up \$24 million, or 4.5%, from the nine months ended September 30, 2017. Other income included a \$78 million gain related to the sale of KIBS during the second quarter of 2018, compared to a \$64 million gain from acquiring the remaining ownership in a merchant services joint venture in the second quarter of 2017. Corporate services income also contributed to the increase due to higher derivative income. Operating lease income and other leasing gains were negatively impacted by a \$42 million lease residual loss in the second quarter of 2018, partially offset by \$13 million of lease residual losses recognized in the third quarter of 2017.

Noninterest expense

As shown in Figure 9, noninterest expense was \$964 million for the third quarter of 2018, compared to \$992 million for the third quarter of 2017. Figure 9 gives a breakdown of our major categories of noninterest expense as a percentage of total noninterest expense for the third quarter of 2018. For the fourth quarter of 2018, we expect noninterest expense to be within 2% of our third quarter of 2018 results.

Table of contents**Figure 9. Noninterest Expense**

(a) Other noninterest expense includes equipment, operating lease expense, marketing, FDIC assessment, intangible asset amortization, OREO expense, net, and other expense. See the "Consolidated Statements of Income" in Item 1. Financial Statements of this report.

(a) See Figure 2 entitled "GAAP to Non-GAAP Reconciliations" which presents the computations of certain financial measures related to "cash efficiency." The table reconciles the GAAP performance measures to the corresponding non-GAAP measure, which provides a basis for period-to-period comparisons.

Personnel

As shown in Figure 10, personnel expense, the largest category of our noninterest expense, decreased by \$6 million, or 1.1%, for the three months ended September 30, 2018, compared to the same period one year ago. This decrease was driven by lower levels of severance, salaries, and contract labor.

For the nine months ended September 30, 2018, personnel expense was up \$64 million, or 3.8%, from the nine months ended September 30, 2017. This increase was partially due to recent acquisitions as well as accelerated technology investments and higher performance-based compensation.

Figure 10. Personnel Expense

	Three months ended September 30,				Nine months ended September 30,			
	2018	2017	Change	Change	2018	2017	Change	Change
<i>dollars in millions</i>								
Salaries and contract labor	\$335	\$339	\$(4)	(1.2)%	\$1,015	\$995	\$20	2.0%
Incentive and stock-based compensation	138	134	4	3.0	430	398	32	8.0
Employee benefits	79	81	(2)	(2.5)	266	256	10	3.9
Severance	1	5	(4)	(80.0)	22	20	2	10.0
Total personnel expense	\$553	\$559	\$(6)	(1.1)%	\$1,733	\$1,669	\$64	3.8%

Net occupancy

Net occupancy expense increased \$2 million, or 2.7%, for the third quarter of 2018, compared to the same period one year ago. The increase during the third quarter of 2018 was primarily due to higher property reserve expenses partially offset by lower rental expenses.

Table of contents

For the nine months ended September 30, 2018, net occupancy expense was down \$6 million, or 2.5%, from the nine months ended September 30, 2017. The decrease was primarily due to lower property reserves, rental expenses, and property management fees.

Other noninterest expense

Other noninterest expense includes equipment, operating lease expense, marketing, FDIC assessment, intangible asset amortization, OREO expense, and other miscellaneous expense categories. Other noninterest expense decreased \$14 million, or 5.5%, from the year-ago quarter. For the nine months ended September 30, 2018, other noninterest expense was down \$74 million, or 9.5%, from the nine months ended September 30, 2017. The declines in other expense were primarily driven by \$20 million charitable contributions made in both the first and second quarters of 2017. Other miscellaneous expenses also declined from the three and nine months ended September 30, 2017. These declines were partially offset by higher operating lease expenses driven by increased operating lease originations and costs related to recent acquisitions.

Income taxes

We recorded tax expense from continuing operations of \$87 million for the third quarter of 2018 and \$134 million for the third quarter of 2017. For the nine months ended September 30, 2018, we recorded tax expense from continuing operations of \$252 million, compared to \$386 million for the same period one year ago.

Our federal tax expense differs from the amount that would be calculated using the federal statutory tax rate, primarily because we generate income from investments in tax-advantaged assets, such as corporate-owned life insurance and credits associated with renewable energy and low-income housing investments, and make periodic adjustments to our tax reserves. Tax expense for the three months ended September 30, 2018, and September 30, 2017, was affected by net discrete income tax benefits of \$12 million and \$13 million, respectively. Excluding the discrete income tax expense, the tax expense for the third quarter of 2018 was \$99 million.

Additional information pertaining to how our tax expense (benefit) and the resulting effective tax rates were derived is included in Note 14 (“Income Taxes”) beginning on page 156 of our 2017 Form 10-K.

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 18 (“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 explains “Other Segments” and “Reconciling Items.”

Figure 11 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 the three- and nine-month periods ended September 30, 2018, and September 30, 2017.

Table of contents**Figure 11. Major Business Segments — Taxable-Equivalent Revenue from Continuing Operations and Income (Loss) from Continuing Operations Attributable to Key**

<i>dollars in millions</i>	Three months ended				Nine months ended			
	September 30, 2018		September 30, 2017		September 30, 2018		September 30, 2017	
	Amount	Percent	Change Amount	Change Percent	Amount	Percent	Change Amount	Change Percent
REVENUE FROM CONTINUING OPERATIONS (TE)								
Key Community Bank	\$994	\$945	\$49	5.2 %	\$2,949	\$2,834	\$115	4.1 %
Key Corporate Bank	574	561	13	2.3	1,674	1,736	(62)	(3.6)
Other Segments	24	42	(18)	(42.9)	99	132	(33)	(25.0)
Total Segments	1,592	1,548	44	2.8	4,722	4,702	20	.4
Reconciling Items ^(a)	10	6	4	N/M	80	(2)	82	N/M
Total	\$1,602	\$1,554	\$48	3.1 %	\$4,802	\$4,700	\$102	2.2 %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY								
Key Community Bank	\$241	\$163	\$78	47.9 %	\$681	\$506	\$175	34.6 %
Key Corporate Bank	199	190	9	4.7	574	595	(21)	(3.5)
Other Segments	22	21	1	4.8	65	66	(1)	(1.5)
Total Segments	462	374	88	23.5	1,320	1,167	153	13.1
Reconciling Items ^(a)	20	(11)	31	N/M	57	(73)	130	N/M
Total	\$482	\$363	\$119	32.8 %	\$1,377	\$1,094	\$283	25.9 %

^(a) Reconciling items consists primarily of the gain on the sale of KIBS for the nine-months ended September 30, 2018, the unallocated portion of merger-related charges for the three- and nine-months ended September 30, 2017, 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 12, Key Community Bank recorded net income attributable to Key of \$241 million for the third quarter of 2018, compared to \$163 million for the year-ago quarter, benefiting from momentum in Key's core businesses and a lower tax rate as a result of tax reform.

TE net interest income increased in the third quarter of 2018 compared to the third quarter of 2017, primarily attributable to the benefit from higher interest rates and balance sheet growth, partially offset by lower purchase accounting accretion. Average loans and leases increased from the year-ago quarter largely driven by an \$831 million, or 4.4%, increase in commercial and industrial loans. Additionally, average deposits increased driven by growth across multiple businesses, from the third quarter of 2017.

The provision for credit losses decreased from the year-ago quarter. Net loan charge-offs increased \$2 million, or 4.9%, from the third quarter of 2017, as overall credit quality remained stable.

Noninterest income was down from the year-ago quarter, driven by lower service charges on deposit accounts and cards and payments income, which were impacted by the revenue recognition changes. This was partially offset by higher trust and investment services income which increased primarily due to higher assets under management from market growth.

Noninterest expense increased from the year-ago quarter. Personnel expense increased, primarily driven by higher production related incentive compensation and ongoing investments, including residential mortgage.

Table of contents**Figure 12. Key Community Bank**

<i>dollars in millions</i>	Three months ended		Change		Nine months ended		Change	
	September 30, 2018	September 30, 2017	Amount	Percent	September 30, 2018	September 30, 2017	Amount	Percent
SUMMARY OF OPERATIONS								
Net interest income (TE)	\$726	\$673	\$53	7.9 %	\$2,129	\$1,978	\$151	7.6 %
Noninterest income	268	272	(4)	(1.5)	820	856	(36)	(4.2)
Total revenue (TE)	994	945	49	5.2	2,949	2,834	115	4.1
Provision for credit losses	43	59	(16)	(27.1)	128	152	(24)	(15.8)
Noninterest expense	635	626	9	1.4	1,928	1,876	52	2.8
Income (loss) before income taxes (TE)	316	260	56	21.5	893	806	87	10.8
Allocated income taxes and TE adjustments	75	97	(22)	(22.7)	212	300	(88)	(29.3)
Net income (loss) attributable to Key	\$241	\$163	\$78	47.9 %	\$681	\$506	\$175	34.6 %
AVERAGE BALANCES								
Loans and leases	\$47,862	\$47,614	\$248	.5 %	\$47,844	\$47,396	\$448	.9 %
Total assets	51,740	51,642	98	.2	51,739	51,361	378	.7
Deposits	82,259	79,563	2,696	3.4	81,053	79,439	1,614	2.0
Assets under management at period end	\$40,575	\$38,660	\$1,915	5.0 %	\$40,575	\$38,660	\$1,915	5.0 %

ADDITIONAL KEY COMMUNITY BANK DATA

<i>dollars in millions</i>	Three months ended		Change		Nine months ended		Change	
	September 30, 2018	September 30, 2017	Amount	Percent	September 30, 2018	September 30, 2017	Amount	Percent
NONINTEREST INCOME								
Trust and investment services income	\$90	\$85	\$5	5.9 %	\$271	\$253	\$18	7.1 %
Services charges on deposit accounts	72	78	(6)	(7.7)	226	230	(4)	(1.7)
Cards and payments income	59	65	(6)	(9.2)	170	180	(10)	(5.6)
Other noninterest income	47	44	3	6.8	153	193	(40)	(20.7)
Total noninterest income	\$268	\$272	\$(4)	(1.5)	\$820	\$856	\$(36)	(4.2)
AVERAGE DEPOSITS OUTSTANDING								
NOW and money market deposit accounts	\$45,967	\$44,481	\$1,486	3.3 %	\$45,129	\$44,795	\$334	.7 %
Savings deposits	4,923	5,165	(242)	(4.7)	5,019	5,242	(223)	(4.3)
Certificates of deposits (\$100,000 or more)	5,608	4,195	1,413	33.7	5,269	4,031	1,238	30.7
Other time deposits	5,019	4,657	362	7.8	4,937	4,663	274	5.9
Noninterest-bearing deposits	20,742	21,065	(323)	(1.5)	20,699	20,708	(9)	—
Total deposits	\$82,259	\$79,563	\$2,696	3.4 %	\$81,053	\$79,439	\$1,614	2.0 %
HOME EQUITY LOANS								
Average balance	\$11,317	\$12,182						
Combined weighted-average loan-to-value ratio (at date of origination)	70	%69		%				
Percent first lien positions	60	60						
OTHER DATA								
Branches	1,166	1,208						
Automated teller machines	1,518	1,588						

Key Corporate Bank summary of operations

As shown in Figure 13, Key Corporate Bank recorded net income attributable to Key of \$199 million for the third quarter of 2018, compared to \$190 million for the same period one year ago.

TE net interest income decreased in the third quarter of 2018 compared to the third quarter of 2017. This decline is primarily related to \$7 million of lower purchase accounting accretion, as well as loan spread compression. Average loans and leases increased from the year-ago quarter driven by broad-based growth in commercial and industrial loans. Average deposit balances decreased from the year-ago quarter driven by the managed exit of higher cost corporate and public sector deposits offsetting growth in core deposits.

The provision for credit losses increased compared to the third quarter of 2017, mostly due to higher net loan charge-offs.

Noninterest income was up from the prior year. Investment banking and debt placement fees increased related to the acquisition of Cain Brothers and organic growth. Operating lease income and other leasing gains increased due

Table of contents

to higher volumes, as well as lease residual losses in the year-ago period. These increases were slightly offset by lower trust and investment services income as well as declines in both mortgage fees due to lower transactional fees and corporate services income due to lower derivatives income.

Noninterest expense increased from the third quarter of 2017. The increase from the prior year was largely related to acquisitions and investments made throughout the year driving increases in personnel expense and intangible amortization, as well as higher operating lease expense, driven by increased volume.

Figure 13. Key Corporate Bank

<i>dollars in millions</i>	Three months ended		Change		Nine months ended		Change	
	September 30, 2018	September 30, 2017	Amount	Percent	September 30, 2018	September 30, 2017	Amount	Percent
SUMMARY OF OPERATIONS								
Net interest income (TE)	\$273	\$292	\$(19)	(6.5)%	\$822	\$909	\$(87)	(9.6)%
Noninterest income	301	269	32	11.9	852	827	25	3.0
Total revenue (TE)	574	561	13	2.3	1,674	1,736	(62)	(3.6)
Provision for credit losses	20	(11)	)31	N/M	62	26	36	138.5
Noninterest expense	316	303	13	4.3	953	902	51	5.7
Income (loss) before income taxes (TE)	238	269	(31)	(11.5)	659	808	(149)	(18.4)
Allocated income taxes and TE adjustments	39	79	(40)	(50.6)	85	213	(128)	(60.1)
Net income (loss) attributable to Key	\$199	\$190	\$9	4.7%	\$574	\$595	\$(21)	(3.5)%
AVERAGE BALANCES								
Loans and leases	\$39,714	\$38,021	\$1,693	4.5%	\$39,232	\$37,804	\$1,428	3.8%
Loans held for sale	1,042	1,521	(479)	(31.5)	1,152	1,208	(56)	(4.6)
Total assets	46,860	45,257	1,603	3.5	46,544	44,506	2,038	4.6
Deposits	21,056	21,559	(503)	(2.3)%	20,977	21,237	(260)	(1.2)%

ADDITIONAL KEY CORPORATE BANK DATA

<i>dollars in millions</i>	Three months ended		Change		Nine months ended		Change	
	September 30, 2018	September 30, 2017	Amount	Percent	September 30, 2018	September 30, 2017	Amount	Percent
NONINTEREST INCOME								
Trust and investment services income	\$27	\$34	\$(7)	(20.6)%	\$85	\$106	\$(21)	(19.8)%
Investment banking and debt placement fees	162	137	25	18.2	456	395	61	15.4
Operating lease income and other leasing gains	34	13	21	161.5	51	56	(5)	(8.9)
Corporate services income	37	40	(3)	(7.5)	124	116	8	6.9
Service charges on deposit accounts	13	13	—	—	39	37	2	5.4
Cards and payments income	10	10	—	—	32	29	3	10.3
Payments and services income	60	63	(3)	(4.8)	195	182	13	7.1
Mortgage servicing fees	15	18	(3)	(16.7)	51	47	4	8.5
Other noninterest income	3	4	(1)	(25.0)	14	41	(27)	(65.9)
Total noninterest income	\$301	\$269	\$32	11.9%	\$852	\$827	\$25	3.0%

Other Segments

Other Segments consist of Corporate Treasury, Key's Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of \$22 million for the third quarter of 2018, compared to \$21 million for the same period last year.

Table of contents

Financial Condition

Loans and loans held for sale

Figure 14. Breakdown of Loans at September 30, 2018

(a) Other consumer loans include Consumer direct loans, Credit cards, and Consumer indirect loans. See Note 3 ("Loan Portfolio") Item 1. Financial Statements of this report.

At September 30, 2018, total loans outstanding from continuing operations were \$89.3 billion, compared to \$86.4 billion at December 31, 2017. 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" on page 100 of our 2017 Form 10-K.

Commercial loan portfolio

Commercial loans outstanding were \$66.0 billion at September 30, 2018, an increase of \$3.2 billion, or 5.2%, compared to December 31, 2017, primarily driven by an increase in commercial and industrial loans. Figure 15 provides our commercial loan portfolios by industry classification at September 30, 2018, and December 31, 2017.

Table of contents**Figure 15. Commercial Loans by Industry**

September 30, 2018	Commercial and industrial	Commercial real estate	Commercial lease financing	Total commercial loans	Percent of total	
<i>dollars in millions</i>						
Industry classification:						
Agriculture	\$ 1,022	\$ 174	\$ 119	\$ 1,315	2.0	%
Automotive	1,943	452	46	2,441	3.7	
Business products	1,527	122	35	1,684	2.6	
Business services	2,791	139	223	3,153	4.8	
Chemicals	930	39	57	1,026	1.6	
Commercial real estate	5,868	10,985	20	16,873	25.6	
Construction materials and contractors	1,757	216	199	2,172	3.3	
Consumer discretionary	3,805	534	485	4,824	7.3	
Consumer services	3,252	779	212	4,243	6.4	
Equipment	1,609	96	81	1,786	2.7	
Finance	5,182	610	349	6,141	9.3	
Healthcare	3,129	1,951	375	5,455	8.3	
Materials manufacturing and mining	1,077	53	38	1,168	1.8	
Oil and gas	1,647	42	59	1,748	2.6	
Public exposure	2,670	47	992	3,709	5.6	
Technology	930	26	66	1,022	1.5	
Transportation	1,388	210	801	2,399	3.6	
Utilities	3,912	4	313	4,229	6.4	
Other	584	—	—	584	.9	
Total	\$ 45,023	\$ 16,479	\$ 4,470	\$ 65,972	100.0	%

December 31, 2017	Commercial and industrial	Commercial real estate	Commercial lease financing	Total commercial loans	Percent of total	
<i>dollars in millions</i>						
Industry classification:						
Agriculture	\$ 995	\$ 188	\$ 142	\$ 1,325	2.1	%
Automotive	2,156	473	73	2,702	4.3	
Business products	1,395	132	36	1,563	2.5	
Business services	2,735	159	237	3,131	5.0	
Chemicals	856	48	63	967	1.5	
Commercial real estate	5,731	10,600	23	16,354	26.1	
Construction materials and contractors	1,635	243	161	2,039	3.3	
Consumer discretionary	3,642	584	546	4,772	7.6	
Consumer services	2,907	800	263	3,970	6.3	
Equipment	1,496	134	89	1,719	2.7	
Finance	3,999	49	341	4,389	7.0	
Healthcare	3,236	2,224	390	5,850	9.3	
Materials manufacturing and mining	1,156	46	38	1,240	2.0	
Oil and gas	1,163	30	60	1,253	2.0	
Public exposure	2,796	52	1,054	3,902	6.2	
Technology	961	24	80	1,065	1.7	
Transportation	1,435	245	890	2,570	4.1	
Utilities	3,075	10	340	3,425	5.5	
Other	490	7	—	497	.8	
Total	\$ 41,859	\$ 16,048	\$ 4,826	\$ 62,733	100.0	%

Commercial and industrial. Commercial and industrial loans are the largest component of our loan portfolio, representing 50% of our total loan portfolio at September 30, 2018, and 48% at December 31, 2017. This portfolio is approximately 83% variable rate and consists of loans originated in both Key Corporate Bank and Key Community Bank to large corporate, middle market, and small business clients.

Commercial and industrial loans totaled \$45.0 billion at September 30, 2018, an increase of \$3.2 billion, or 7.6%, compared to December 31, 2017. The growth was broad-based and spread across most industry categories, including increased lending in the finance, utilities, and oil and gas industries, which, combined, accounted for approximately 79% of the growth at September 30, 2018.

Commercial real estate loans. Our commercial real estate portfolio includes both mortgage and construction loans, and is originated 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. Approximately 70% of our average commercial real estate loans are generated by our KeyBank Real Estate Capital line of business. Nonowner-occupied properties, generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties, represented 81% of total commercial real estate loans outstanding at September 30, 2018. Construction loans, which provide a stream of funding for properties not fully leased at origination to support debt service payments over the term of the contract or project, represented 11% of commercial real estate loans at period end.

Table of contents

At September 30, 2018, commercial real estate loans totaled \$16.5 billion, which includes \$1.8 billion of construction loans. Compared to December 31, 2017, this portfolio increased \$431 million, or 2.7%. We continue to focus primarily on owners of completed and stabilized commercial real estate in accordance with our relationship strategy.

As shown in Figure 16, our commercial real estate loan portfolio includes various property types and geographic locations of the underlying collateral. These loans include commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank.

Figure 16. Commercial Real Estate Loans

<i>dollars in millions</i>	Geographic Region							Total	Percent of Total	Construction	Commercial Mortgage
	West	Southwest	Central	Midwest	Southeast	Northeast	National				
September 30, 2018											
Nonowner-occupied:											
Retail properties	\$ 130	\$ 95	\$ 117	\$ 191	\$ 186	\$ 723	\$ 352	\$ 1,794	10.9	% \$ 125	\$ 1,669
Multifamily properties	441	335	892	516	1,082	1,861	840	5,967	36.2	1,212	4,755
Health facilities	53	—	55	107	189	792	448	1,644	10.0	9	1,635
Office buildings	249	7	125	115	160	946	121	1,723	10.4	107	1,616
Warehouses	87	33	16	41	62	291	131	661	4.0	56	605
Manufacturing facilities	24	—	19	40	25	61	64	233	1.4	16	217
Hotels/Motels	95	—	19	—	6	225	30	375	2.3	—	375
Residential properties	1	—	—	3	20	159	—	183	1.1	72	111
Land and development	22	4	5	2	1	58	—	92	.6	70	22
Other	96	—	47	102	3	372	18	638	3.9	12	626
Total nonowner-occupied	1,198	474	1,295	1,117	1,734	5,488	2,004	13,310	80.8	1,679	11,631
Owner-occupied	858	24	266	504	69	1,448	—	3,169	19.2	84	3,085
Total	\$ 2,056	\$ 498	\$ 1,561	\$ 1,621	\$ 1,803	\$ 6,936	\$ 2,004	16,479	100.0	% \$ 1,763	\$ 14,716
December 31, 2017											
Total	\$ 2,071	\$ 387	\$ 1,320	\$ 1,730	\$ 1,939	\$ 7,758	\$ 843	\$ 16,048		\$ 1,960	\$ 14,088
September 30, 2018											
Nonowner-occupied:											
Nonperforming loans	—	—	—	\$ 1	\$ 9	\$ 10	\$ 62	\$ 82	N/M	—	\$ 82
Accruing loans past due 90 days or more	—	—	—	3	—	16	—	19	N/M	\$ 6	13
Accruing loans past due 30 through 89 days	\$ 7	\$ —	\$ 1	8	11	50	—	77	N/M	35	42

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

Consumer loan portfolio

Consumer loans outstanding decreased by \$376 million, or 1.6%, from December 31, 2017, driven by continued declines in the home equity loan portfolio, largely the result of paydowns on home equity lines of credit, partly offset by growth in indirect auto lending.

The home equity portfolio is comprised of loans originated by our Key Community Bank within our 15-state footprint and is the largest segment of our consumer loan portfolio, representing 49% of consumer loans outstanding at September 30, 2018.

As shown in Figure 12, we held the first lien position for approximately 60% of the Key Community Bank home equity portfolio at both September 30, 2018, and September 30, 2017. For loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent FICO scores as well as 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” beginning on page 102 of our 2017 Form 10-K.

Table of contents**Figure 17. Consumer Loans by State**

September 30, 2018	Real estate mortgage	Home residential equity loans	Consumer direct loans	Credit cards	Consumer indirect loans	Total
State						
New York	\$ 1,140	\$2,949	\$ 399	\$396	\$ 745	\$5,629
Ohio	461	1,568	389	242	451	3,111
Washington	700	1,745	227	101	11	2,784
Pennsylvania	280	746	79	48	261	1,414
California	49	28	13	4	42	136
Colorado	248	516	78	34	2	878
Connecticut	1,124	424	26	22	147	1,743
Texas	1	16	9	3	19	48
Oregon	357	909	82	45	3	1,396
Massachusetts	263	50	21	5	336	675
Other	874	2,386	484	197	1,538	5,479
Total	\$ 5,497	\$11,339	\$ 1,807	\$1,098	\$ 3,555	\$23,296
December 31, 2017						
Total	\$ 5,483	\$12,028	\$ 1,794	\$1,106	\$ 3,261	\$23,672

Loan sales

As shown in Figure 18, during the first nine months of 2018, we sold \$8.3 billion of loans. Sales of loans classified as held for sale generated net gains of \$130 million in the first nine months of 2018.

Figure 18 summarizes our loan sales for the first nine months of 2018 and all of 2017.

Figure 18. Loans Sold (Including Loans Held for Sale)

<i>in millions</i>	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	Total
2018					
Third quarter	\$ 45	\$ 2,161	\$ 52	\$ 302	\$2,560
Second quarter	253	2,266	144	308	2,971
First quarter	141	2,251	66	284	2,742
Total	\$ 439	\$ 6,678	\$ 262	\$ 894	\$8,273
2017					
Fourth quarter	\$ 88	\$ 3,394	\$ 81	\$ 275	\$3,838
Third quarter	337	2,534	93	279	3,243
Second quarter	205	2,097	14	230	2,546
First quarter	49	2,011	83	194	2,337
Total	\$ 679	\$ 10,036	\$ 271	\$ 978	\$11,964

Figure 19 shows loans that are either administered or serviced by us, but not recorded on the balance sheet; this includes loans that were sold.

Figure 19. Loans Administered or Serviced

<i>in millions</i>	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Commercial real estate loans	\$ 270,771	\$ 256,062	\$ 246,089	\$ 238,718	\$ 224,361
Residential mortgage	5,046	4,893	4,585	4,582	4,458
Education loans	804	845	888	932	974
Commercial lease financing	892	915	873	862	856
Commercial loans	534	518	498	488	458
Total	\$ 278,047	\$ 263,233	\$ 252,933	\$ 245,582	\$ 231,107

In the event of default by a borrower, we are subject to recourse with respect to approximately \$3.8 billion of the \$278.0 billion of loans administered or serviced at September 30, 2018. Additional information about this recourse arrangement is included in Note 15 (“Contingent Liabilities and Guarantees”) under the heading “Recourse agreement with FNMA.”

Table of contents

We derive income from several sources when retaining the right to administer or service loans that are sold. We earn noninterest income (recorded as “mortgage servicing fees”) 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 loans. Additional information about our mortgage servicing assets is included in Note 8 (“Mortgage Servicing Assets”).

Securities

Our securities portfolio totaled \$30.2 billion at September 30, 2018, compared to \$30.0 billion at December 31, 2017. Available-for-sale securities were \$18.3 billion at September 30, 2018, compared to \$18.1 billion at December 31, 2017. Held-to-maturity securities were \$11.9 billion at September 30, 2018, and \$11.8 billion at December 31, 2017.

As shown in Figure 20, 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 traded in liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio and at amortized cost for the held-to-maturity portfolio. For more information about these securities, see Note 5 (“Fair Value Measurements”) under the heading “Qualitative Disclosures of Valuation Techniques,” and Note 6 (“Securities”).

Figure 20. Mortgage-Backed Securities by Issuer

<i>in millions</i>	September 30, 2018	December 31, 2017
FHLMC	\$ 5,820	\$ 5,897
FNMA	10,781	10,328
GNMA	13,425	13,543
Total ^(a)	\$ 30,026	\$ 29,768

(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.

Figure 21 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 6 (“Securities”).

Figure 21. 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)	Agency Residential Mortgage-backed Securities ^(a)	Agency Commercial Mortgage-backed Securities ^(a)	Other Securities	Total	Weighted-Average Yield ^(b)	%
September 30, 2018									
Remaining maturity:									
One year or less	—	\$ 3	\$ 77	\$ 13	—	—	\$ 93	3.32	%

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After one through five years	\$ 143	4	8,465	1,177	\$ 2,037	\$ 20	11,846	2.30
After five through ten years	1	—	5,650	460	279	—	6,390	2.40
After ten years	1	—	—	11	—	—	12	3.06
Fair value	\$ 145	\$ 7	\$ 14,192	\$ 1,661	\$ 2,316	\$ 20	\$ 18,341	—
Amortized cost	150	7	14,804	1,708	2,439	17	19,125	2.34
Weighted-average yield ^(b)	1.78	% 5.30	% 2.31	% 2.41	% 2.53	% —	2.34	%—
Weighted-average maturity	3.6 years	1.4 years	4.8 years	4.2 years	4.1 years	1.5 years	4.6 years	—
December 31, 2017								
Fair value	\$ 157	\$ 9	\$ 14,660	\$ 1,439	\$ 1,854	\$ 20	\$ 18,139	—
Amortized cost	159	9	14,985	1,456	1,920	17	18,546	2.09

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

(b) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a TE basis using the statutory federal income tax rate in effect that calendar year.

Table of contentsHeld-to-maturity securities

Federal agency CMOs and mortgage-backed securities constitute essentially all of our held-to-maturity securities. The remaining balance is comprised of foreign bonds. Figure 22 shows the composition, yields, and remaining maturities of these securities.

Figure 22. 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)	
September 30, 2018							
Remaining maturity:							
One year or less	\$ 25	—	—	\$ 6	\$ 31	2.32	%
After one through five years	4,104	—	\$ 2,071	6	6,181	2.36	
After five through ten years	3,201	\$ 508	1,948	—	5,657	2.45	
After ten years	—	—	—	—	—	—	
Amortized cost	\$ 7,330	\$ 508	\$ 4,019	\$ 12	\$ 11,869	2.40	%
Fair value	6,930	486	3,833	12	11,261	—	
Weighted-average yield	2.10	% 2.68	% 2.91	% 2.85	% 2.40	%—	
Weighted-average maturity	4.8 years	6.2 years	6.2 years	1.2 years	5.3 years	—	
December 31, 2017							
Amortized cost	\$ 8,055	\$ 574	\$ 3,186	\$ 15	\$ 11,830	2.27	%
Fair value	7,831	571	3,148	15	11,565	—	

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

(b) Weighted-average yields are calculated based on amortized cost. Such yields have been adjusted to a TE basis using the statutory federal income tax rate in effect that calendar year.

Deposits and other sources of funds**Figure 23. Breakdown of Deposits at September 30, 2018**

Deposits are our primary source of funding. At September 30, 2018, our deposits totaled \$105.8 billion, an increase of \$545 million compared to December 31, 2017. The increase reflects strength in our retail banking franchise and growth from commercial relationships, as well as clients shifting to higher-yielding deposit products.

Wholesale funds, consisting of short-term borrowings and long-term debt, totaled \$15.8 billion at September 30, 2018, compared to \$15.3 billion at December 31, 2017. The increase in wholesale funds from December 31, 2017, reflects an increase in short-term borrowings driven by commercial lending.

Capital

The objective of capital management is to maintain capital levels consistent with our risk appetite and of a sufficient amount to operate under a wide range of economic conditions. We have identified three primary uses of capital:

1. Investing in our businesses, supporting our clients, and loan growth;
2. Maintaining or increasing our Common Share dividend; and

Table of contents

3. Returning capital in the form of Common Share repurchases to our shareholders.

The following sections discuss certain ways we have deployed our capital. For further information, see the Consolidated Statements of Changes in Equity and Note 17 (“Shareholders’ Equity”).

Dividends

Consistent with our 2018 capital plan, we paid a quarterly dividend of \$.17 per Common Share for the third quarter of 2018. We made a payment of \$12.50 per depositary share on the depositary shares related to our Series D Preferred Stock during the third quarter of 2018, for a total of \$7 million. We made a payment of \$.382813 per depositary share on the depositary shares related to our Series E Preferred Stock during the third quarter of 2018, for a total of \$7 million.

Further information regarding the capital planning process and CCAR is included under the heading “Capital planning and stress testing” in the “Supervision and Regulation” section beginning on page 12 of our 2017 Form 10-K.

Common shares outstanding

Our Common Shares are traded on the NYSE under the symbol KEY with 34,865 holders of record at September 30, 2018. Our book value per Common Share was \$13.33 based on 1.034 billion shares outstanding at September 30, 2018, compared to \$13.09 per Common Share based on 1.069 billion shares outstanding at December 31, 2017. At September 30, 2018, our tangible book value per Common Share was \$10.59, compared to \$10.35 per Common Share at December 31, 2017.

Figure 24 shows activities that caused the change in outstanding common shares over the past five quarters.

Figure 24. Changes in Common Shares Outstanding

<i>in thousands</i>	2018			2017	
	Third	Second	First	Fourth	Third
Shares outstanding at beginning of period	1,058,944	1,064,939	1,069,084	1,079,039	1,092,739
Open market repurchases and return of shares under employee compensation plans	(25,418)	(6,259)	(9,399)	(10,617)	(15,298)
Shares issued under employee compensation plans (net of cancellations)	761	264	5,254	662	1,598
Shares outstanding at end of period	1,034,287	1,058,944	1,064,939	1,069,084	1,079,039

As shown above, Common Shares outstanding decreased by 24.7 million shares during the third quarter of 2018. This decrease was primarily due to common share repurchases under our 2018 capital plan.

At September 30, 2018, we had 222.4 million treasury shares, compared to 187.6 million treasury shares at December 31, 2017. Going forward we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

Table of contents

Information on repurchases of Common Shares by KeyCorp is included in Part II, Item 2. “Unregistered Sales of Equity Securities and Use of Proceeds” of this report.

Preferred stock

On July 30, 2018, we issued \$425 million of depository shares, each representing a 1/40th ownership interest in a share of our Fixed Rate Perpetual Noncumulative Series F Preferred Stock. For more information on our preferred stock, see Note 17 (“Shareholders' Equity”).

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 September 30, 2018. Our capital and liquidity levels are intended to position us to weather an adverse operating environment 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 2 of this report. Our shareholders' equity to assets ratio was 10.96% at September 30, 2018, compared to 10.91% at December 31, 2017. Our tangible common equity to tangible assets ratio was 8.05% at September 30, 2018, compared to 8.23% at December 31, 2017. The minimum capital and leverage ratios under the Regulatory Capital Rules together with the estimated ratios of KeyCorp at September 30, 2018, calculated on a fully phased-in basis, are set forth under the heading “Basel III” in the “Supervision and regulation — Regulatory capital requirements” section in Item 2 of this report.

Figure 25 represents the details of our regulatory capital positions at September 30, 2018, and December 31, 2017, under the Regulatory Capital Rules. Information regarding the regulatory capital ratios of KeyCorp's banking subsidiaries is presented annually, in Note 24 (“Shareholders' Equity”) beginning on page 182 of our 2017 Form 10-K.

Table of contents**Figure 25. Capital Components and Risk-Weighted Assets**

<i>dollars in millions</i>	September 30, 2018	December 31, 2017
COMMON EQUITY TIER 1		
Key shareholders' equity (GAAP)	\$ 15,208	\$ 15,023
Less: Preferred Stock ^(a)	1,421	1,009
Common Equity Tier 1 capital before adjustments and deductions	13,787	14,014
Less: Goodwill, net of deferred taxes	2,460	2,495
Intangible assets, net of deferred taxes	267	266
Deferred tax assets	27	2
Net unrealized gains (losses) on available-for-sale securities, net of deferred taxes	(599)	(311)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes	(220)	(122)
Amounts in AOCI attributed to pension and postretirement benefit costs, net of deferred taxes	(383)	(391)
Total Common Equity Tier 1 capital	\$ 12,235	\$ 12,075
TIER 1 CAPITAL		
Common Equity Tier 1	\$ 12,235	\$ 12,075
Additional Tier 1 capital instruments and related surplus	1,421	1,009
Less: Deductions	—	1
Total Tier 1 capital	13,656	13,083
TIER 2 CAPITAL		
Tier 2 capital instruments and related surplus	1,344	1,310
Allowance for losses on loans and liability for losses on lending-related commitments ^(b)	962	952
Less: Deductions	—	—
Total Tier 2 capital	2,306	2,262
Total risk-based capital	\$ 15,962	\$ 15,345
RISK-WEIGHTED ASSETS		
Risk-weighted assets on balance sheet	\$ 98,200	\$ 94,735
Risk-weighted off-balance sheet exposure	23,725	23,058
Market risk-equivalent assets	983	1,019
Gross risk-weighted assets	122,908	118,812
Less: Excess allowance for loan and lease losses	—	—
Net risk-weighted assets	\$ 122,908	\$ 118,812
AVERAGE QUARTERLY TOTAL ASSETS		
	\$ 136,201	\$ 134,484
CAPITAL RATIOS		
Tier 1 risk-based capital	11.11	% 11.01
Total risk-based capital	12.99	12.92
Leverage ^(c)	10.03	9.73
Common Equity Tier 1	9.95	10.16

(a) Net of capital surplus.

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

(b) includes \$14 million and \$16 million of allowance classified as "discontinued assets" on the balance sheet as of September 30, 2018, and December 31, 2017, respectively.

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

Table of contents

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 that we properly identify, measure, and manage such risks across the entire enterprise to maintain safety and soundness, and to maximize profitability. There have been no significant changes in our Risk Management practices as described under the heading “Risk Management” beginning on page 67 of our 2017 Form 10-K.

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. We are exposed to market risk both in our trading and nontrading activities, which include asset and liability management activities. 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” on page 103 of our 2017 Form 10-K and Note 5 (“Fair Value Measurements”) in this report.

Trading market risk

Key incurs market risk as a result of trading activities that are used in support of client facilitation and hedging activities, principally within our investment banking and capital markets businesses. Key has exposures to a wide range of risk factors including 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 and hedging activities in the derivative, fixed income, and foreign exchange markets, including securitization exposures. At September 30, 2018, we did not have any re-securitization positions. We maintain modest trading inventories to facilitate customer flow, make markets in securities, and hedge certain risks including but not limited to credit risk and interest rate risk. The risks associated with these activities are mitigated in accordance with the Market Risk hedging policy. The majority of our positions are traded in active markets.

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. For more information regarding monitoring of trading positions and the activities related to the Market Risk Rule compliance see “Market Risk Management” beginning on page 68 of our 2017 Form 10-K.

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 simulation 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 and other non-covered positions. We analyze market risk by portfolios and do not separately measure and monitor our portfolios by risk type. 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. For more information regarding our VaR model, its governance and assumptions, see "Market Risk Management" on page 68 of our 2017 Form 10-K.

Actual losses for the total covered positions did not exceed aggregate daily VaR on any day during the quarters ended September 30, 2018, and September 30, 2017. 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

Table of contents

and loss. Results of backtesting are provided to the MRC. 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 with a one day holding period for all covered positions was \$.8 million at September 30, 2018, and \$.6 million at September 30, 2017. Figure 26 summarizes our VaR at the 99% confidence level with a one day holding period for significant portfolios of covered positions for the three months ended September 30, 2018, and September 30, 2017.

Figure 26. VaR for Significant Portfolios of Covered Positions

in millions	2018				2017			
	Three months ended September 30, 2018				Three months ended September 30, 2017			
	High	Low	Mean	September 30, 2018	High	Low	Mean	September 30, 2017
Trading account assets:								
Fixed income	\$.9	\$.4	\$.7	\$.4	\$ 1.0	\$.3	\$.6	\$.3
Derivatives:								
Interest rate	\$.2	\$.1	\$.1	\$.1	\$.2	\$.1	\$.1	\$.1

Stressed VaR is calculated by running the portfolios through a predetermined stress period which is approved by the MRC and is calculated at the 99% confidence level using the same model and assumptions used for general VaR. The aggregate stressed VaR for all covered positions was \$5.9 million at September 30, 2018, and \$2.9 million at September 30, 2017. Figure 27 summarizes our stressed VaR at the 99% confidence level with a one day holding period for significant portfolios of covered positions for the three months ended September 30, 2018, and September 30, 2017.

Figure 27. Stressed VaR for Significant Portfolios of Covered Positions

in millions	2018				2017			
	Three months ended September 30, 2018				Three months ended September 30, 2017			
	High	Low	Mean	September 30, 2018	High	Low	Mean	September 30, 2017
Trading account assets:								
Fixed income	\$ 4.9	\$ 2.7	\$ 4.0	\$ 4.2	\$ 4.0	\$ 1.9	\$ 2.5	\$ 1.9
Derivatives:								
Interest rate	\$.7	\$.3	\$.4	\$.7	\$.4	\$.1	\$.2	\$.4

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 amount, which consists of a VaR component, stressed VaR component, a *de minimis* exposure amount, and a specific risk add-on including the securitization positions. The aggregate market value of the securitization positions as defined by the Market Risk Rule was \$27 million at September 30, 2018, all of which were nonagency mortgage-backed securities positions. 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. Market risk weighted assets, including the specific risk calculations, are run quarterly by the MRM in accordance with the Market Risk Rule, 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 that result from changes in interest rates and differences in the repricing and maturity characteristics of assets and liabilities. We manage the exposure to changes in net interest income and the EVE in accordance with our risk appetite and in accordance with the Board approved ERM policy.

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.

Table of contents

“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 indices 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 nonparallel 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.

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 interest rate risk exposures described above. In addition, the ALCO reviews reports on stress tests and sensitivity analyses related to interest rate risk. The ERM Committee and the ALCO 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. The MRM, as the second line of defense, provides additional oversight.

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. The results of simulation analysis reflect management’s desired interest rate risk positioning. The modeling incorporates investment portfolio and swap portfolio balances consistent with management’s desired interest rate risk positioning. 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. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the net interest income generated in an unchanged interest rate environment.

Figure 28 presents the results of the simulation analysis at September 30, 2018, and September 30, 2017. At September 30, 2018, our simulated impact to changes in interest rates was modestly asset-sensitive. In September 2018, 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 200 basis points. 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 200 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%.

Figure 28. Simulated Change in Net Interest Income

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	September 30, 2018		September 30, 2017	
Basis point change assumption (short-term rates)	-200	+200	-125	+200
Tolerance level	-5.50%	-5.50%	-5.50%	-5.50%
Interest rate risk assessment	-5.25%	2.95%	-5.24%	1.07%

Simulation analysis produces a sophisticated estimate of interest rate exposure based on assumptions input into the model. We tailor certain 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.

Table of contents

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, 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 28. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate changes and the associated assumptions for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. If fixed rate assets increase by \$1 billion, or fixed rate liabilities decrease by \$1 billion, then the benefit to rising rates would decrease by approximately 25 basis points. If the interest-bearing liquid deposit beta assumption increases or decreases by 5% (e.g. 50% to 55%), then the benefit to rising rates would change by approximately 85 basis points.

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. Corporate 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. 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 September 30, 2018.

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. We predominantly use interest rate swaps and options, which modify the interest rate characteristics of certain assets and

liabilities. During the three months ended September 30, 2018, we terminated \$5.2 billion of swaps that were scheduled to mature in 2019 and invested in interest rate floor contracts to enhance our asset sensitivity position and maintain our moderate risk profile.

Figure 29 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 7 (“Derivatives and Hedging Activities”).

Table of contents**Figure 29. Portfolio Swaps by Interest Rate Risk Management Strategy**

September 30, 2018

<i>dollars in millions</i>	September 30, 2018		Weighted-Average			December 31, 2017	
	Notional Amount	Fair Value	Maturity (Years)	Receive Rate	Pay Rate	Notional Amount	Fair Value
Receive fixed/pay variable — conventional A/LM ^(a)	\$12,345	\$(217)	2.4	2.0 %	2.1 %	\$16,425	\$(126)
Receive fixed/pay variable — conventional debt	10,141	(145)	3.0	1.9	2.2	9,691	(9)
Floors — conventional A/LM ^(b)	4,760	—	1.0	—	—	—	—
Pay fixed/receive variable — conventional debt	50	(2)	9.8	2.3	3.6	50	(6)
Total portfolio swaps	\$27,296	\$(364) ^(c)	2.4	1.6 %	1.8 %	\$26,166	\$(141) ^(c)

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

(b) Conventional A/LM floors do not have a stated receive rate or pay rate and are given a strike price on the option.

(c) Excludes accrued interest of \$404 million and \$176 million at September 30, 2018, and December 31, 2017, 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.

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 September 30, 2018, are shown in Figure 30. We believe these credit ratings, under normal conditions in the capital markets, would enable KeyCorp or KeyBank to issue fixed income securities to investors.

Figure 30. Credit Ratings

September 30, 2018	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 Ratings, Inc.	F1	N/A	A-	BBB+	BB+	BB
DBRS, Inc.	R-1 (low)	N/A	A (low)	BBB (high)	BBB (high)	BBB (low)
KEYBANK						
Standard & Poor's	A-2	N/A	A-	BBB+	N/A	N/A
Moody's	P-2	Aa3	A3	Baa1	N/A	N/A
Fitch Ratings, Inc.	F1	A	A-	BBB+	N/A	N/A
DBRS, Inc.	R-1 (low)	A	A	A (low)	N/A	N/A

Sources of liquidity

Our primary source of funding for KeyBank is retail and commercial deposits. As of September 30, 2018, our loan-to-deposit ratio was 87%. In addition, we also have access to various sources of wholesale funding, maintain a portfolio of liquid assets, and have borrowing capacity at the FHLB and Federal Reserve Bank of Cleveland. Our liquid asset portfolio at September 30, 2018, totaled \$23.5 billion, consisting of \$21.3 billion of unpledged securities, \$217 million of securities available for secured funding at the FHLB, and \$2.0 billion of net balances of federal funds sold and balances in our Federal Reserve account. Additionally, as of September 30, 2018, our unused borrowing capacity secured by loan collateral was \$26.0 billion at the Federal Reserve Bank of Cleveland and \$7.2 billion at the FHLB. During the third quarter of 2018, our outstanding FHLB advances increased as \$30 million of term advances were added.

Table of contents

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.

At September 30, 2018, KeyCorp held \$3.1 billion in cash, 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. During the third quarter of 2018, KeyBank paid \$400 million in dividends to KeyCorp. As of September 30, 2018, KeyBank had regulatory capacity to pay \$1.3 billion in dividends to KeyCorp without prior regulatory approval.

Our liquidity position and recent activity

Over the past quarter, 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 decreased as a result of lower balances held at the Federal Reserve. 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.

We generate cash flows from operations and from investing and financing activities. We have approximately \$157 million of cash, cash equivalents, and short-term investments in international tax jurisdictions as of September 30, 2018. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately \$2 million in taxes to be paid. We have included the appropriate amount as a deferred tax liability at September 30, 2018.

The Consolidated Statements of Cash Flows summarize our sources and uses of cash by type of activity for the nine-month periods ended September 30, 2018, and September 30, 2017.

For more information regarding liquidity governance structure, factorings affecting liquidity, management of liquidity risk at KeyBank and KeyCorp, long-term liquidity strategies, and other liquidity programs, see "Liquidity Risk Management" beginning on page 73 of our 2017 Form 10-K.

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, add financial and payments products, 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 management credit policies and recommends for approval significant credit policies to the appropriate Board committee or to the Board. These policies are communicated throughout the organization to foster a consistent approach to granting credit. There have been no significant changes in our Credit Risk Management practices as described under the heading "Credit risk management" beginning on page 76 of our 2017 Form 10-K.

Allowance for loan and lease losses

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" beginning on page 102 of our 2017 Form 10-K. 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. The ALLL at September 30, 2018, represents

Table of contents

our best estimate of the incurred credit losses inherent in the loan portfolio at that date. For more information about impaired loans, see Note 4 (“Asset Quality”).

As shown in Figure 31, our ALLL from continuing operations increased by \$10 million, or 1.1%, from December 31, 2017. Our commercial ALLL increased by \$19 million, or 2.6%, from December 31, 2017, primarily because of loan growth in the commercial and industrial loan portfolio, as well as credit quality migration. Our consumer ALLL decreased by \$9 million, or 6.3%, from December 31, 2017, primarily due to continued improvement in credit quality metrics and modest decreases in the portfolio.

Figure 31. Allocation of the Allowance for Loan Lease Losses

<i>dollars in millions</i>	September 30, 2018				December 31, 2017			
	Percent of		Percent of		Percent of		Percent of	
	Amount	Allowance to	Loan Type to	Amount	Allowance to	Loan Type to	Amount	Allowance to
	Total Allowance	Total Loans	Total Loans	Total Allowance	Total Loans	Total Loans	Total Allowance	Total Loans
Commercial and industrial	\$543	61.2	% 50.4	%	\$529	60.3	% 48.4	%
Commercial real estate:								
Commercial mortgage	143	16.1	16.5		133	15.2	16.3	
Construction	31	3.5	2.0		30	3.4	2.3	
Total commercial real estate loans	174	19.6	18.5		163	18.6	18.6	
Commercial lease financing	37	4.2	5.0		43	4.9	5.6	
Total commercial loans	754	85.0	73.9		735	83.8	72.6	
Real estate — residential mortgage	9	1.0	6.2		7	.8	6.3	
Home equity loans	34	3.8	12.7		43	4.9	13.9	
Consumer direct loans	26	2.9	2.0		28	3.2	2.1	
Credit cards	45	5.1	1.2		44	5.0	1.3	
Consumer indirect loans	19	2.2	4.0		20	2.3	3.8	
Total consumer loans	133	15.0	26.1		142	16.2	27.4	
Total loans ^(a)	\$887	100.0	% 100.0	%	\$877	100.0	% 100.0	%

(a) Excludes allocations of the ALLL related to the discontinued operations of the education lending business in the amount of \$14 million at September 30, 2018, and \$16 million at December 31, 2017.

Net loan charge-offs

Figure 32 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 33.

Over the past 12 months, net loan charge-offs increased \$28 million. This increase includes a large recovery that occurred in the third quarter of 2017.

Figure 32. Net Loan Charge-offs from Continuing Operations ^(a)

<i>dollars in millions</i>	2018		2017	
	Third	Second	First	Fourth/Third
Commercial and industrial	\$33	\$32	\$31	\$24 \$4
Real estate — Commercial mortgage	5	1	1	1 5
Real estate — Construction	—	—	(1)	— 2
Commercial lease financing	1	4	—	4 (2)
Total commercial loans	39	37	31	29 9
Real estate — Residential mortgage	—	—	1	1 (1)

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Home equity loans	1	3	1	4	2	
Consumer direct loans	9	7	6	6	7	
Credit cards	8	10	11	9	10	
Consumer indirect loans	3	3	4	3	5	
Total consumer loans	21	23	23	23	23	
Total net loan charge-offs	\$60	\$ 60	\$ 54	\$52	\$ 32	
Net loan charge-offs to average loans	.27	%.27	%.25	%.24	%.15	%
Net loan charge-offs from discontinued operations — education lending business	\$3	\$ 2	\$ 2	\$4	\$ 8	

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

Table of contents**Figure 33. Summary of Loan and Lease Loss Experience from Continuing Operations**

<i>dollars in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Average loans outstanding	\$88,467	\$86,814	\$88,018	\$86,485
Allowance for loan and lease losses at beginning of period	\$887	\$870	\$877	\$858
Loans charged off:				
Commercial and industrial	38	29	114	101
Real estate — commercial mortgage	6	6	9	9
Real estate — construction	—	2	—	2
Commercial lease financing	4	1	9	9
Total commercial loans	48	38	132	121
Real estate — residential mortgage	2	—	3	2
Home equity loans	4	6	14	23
Consumer direct loans	10	8	27	26
Credit cards	10	11	34	34
Consumer indirect loans	7	8	22	24
Total consumer loans	33	33	100	109
Total loans charged off	81	71	232	230
Recoveries:				
Commercial and industrial	5	25	18	32
Real estate — commercial mortgage	1	1	2	1
Real estate — construction	—	—	1	1
Commercial lease financing	3	3	4	5
Total commercial loans	9	29	25	39
Real estate — residential mortgage	2	1	2	4
Home equity loans	3	4	9	12
Consumer direct loans	1	1	5	4
Credit cards	2	1	5	4
Consumer indirect loans	4	3	12	11
Total consumer loans	12	10	33	35
Total recoveries	21	39	58	74
Net loan charge-offs	(60)	(32)	(174)	(156)
Provision (credit) for loan and lease losses	60	42	184	178
Allowance for loan and lease losses at end of period	\$887	\$880	\$887	\$880
Liability for credit losses on lending-related commitments at beginning of period	\$58	\$48	\$57	\$55
Provision (credit) for losses on lending-related commitments	2	9	3	2
Liability for credit losses on lending-related commitments at end of period ^(a)	\$60	\$57	\$60	\$57
Total allowance for credit losses at end of period	\$947	\$937	\$947	\$937
Net loan charge-offs to average total loans	.27	%.15	%.26	%.24
Allowance for loan and lease losses to period-end loans	.99	1.02	.99	1.02
Allowance for credit losses to period-end loans	1.06	1.08	1.06	1.08
Allowance for loan and lease losses to nonperforming loans	137.5	170.2	137.5	170.2
Allowance for credit losses to nonperforming loans	146.8	181.2	146.8	181.2
Discontinued operations — education lending business:				
Loans charged off	\$4	\$10	\$11	\$20
Recoveries	1	2	4	6
Net loan charge-offs	\$(3)	\$(8)	\$(7)	\$(14)

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

45

Table of contentsNonperforming assets

Figure 34 shows the composition of our nonperforming assets. As shown in Figure 34, nonperforming assets at September 30, 2018, increased \$140 million from December 31, 2017. This increase was largely driven by several credits that were not concentrated in a particular industry or geography. Overall, our credit quality trends remain benign. For a summary of our nonaccrual and charge-off policies, see Note 1 (“Summary of Significant Accounting Policies”) under the headings “Nonperforming Loans,” “Impaired Loans,” and “Allowance for Loan and Lease Losses” beginning on page 101 of our 2017 Form 10-K.

Figure 34. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

<i>dollars in millions</i>	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	
Commercial and industrial	\$ 227	\$ 178	\$ 189	\$ 153	\$ 169	
Real estate — commercial mortgage	98	42	33	30	30	
Real estate — construction	2	2	2	2	2	
Total commercial real estate loans ^(a)	100	44	35	32	32	
Commercial lease financing	10	21	5	6	11	
Total commercial loans ^(b)	337	243	229	191	212	
Real estate — residential mortgage	62	55	59	58	57	
Home equity loans	221	222	229	229	227	
Consumer direct loans	4	4	4	4	3	
Credit cards	2	2	2	2	2	
Consumer indirect loans	19	19	18	19	16	
Total consumer loans	308	302	312	312	305	
Total nonperforming loans ^(c)	645	545	541	503	517	
OREO	28	26	28	31	39	
Other nonperforming assets	1	—	—	—	—	
Total nonperforming assets ^(c)	\$ 674	\$ 571	\$ 569	\$ 534	\$ 556	
Accruing loans past due 90 days or more	\$ 87	\$ 103	\$ 82	\$ 89	\$ 86	
Accruing loans past due 30 through 89 days	368	429	305	359	329	
Restructured loans — accruing and nonaccruing ^(d)	366	347	317	317	315	
Restructured loans included in nonperforming loans ^(d)	211	184	179	189	187	
Nonperforming assets from discontinued operations — education lending business	6	6	6	7	8	
Nonperforming loans to period-end portfolio loans ^(c)	.72	%.62	%.61	%.58	%.60	%
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets ^(c)	.75	.65	%.65	%.62	%.64	%

(a) See Figure 16 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 15 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 \$606 million, \$629 million, \$690 million, \$738 million, and \$783 million of PCI loans at September 30, 2018, June 30, 2018, March 31, 2018, December 31, 2017, and September 30, 2017, 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.

Figure 35 shows the types of activity that caused the change in our nonperforming loan balance during each of the last five quarters.

Figure 35. Summary of Changes in Nonperforming Loans from Continuing Operations

<i>in millions</i>	2018		2017		
	Third	Second	First	Fourth	
Balance at beginning of period	\$ 545	\$ 541	\$ 503	\$ 517	\$ 507

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Loans placed on nonaccrual status	263	175	182	137	181
Charge-offs	(81)	(78)	(70)	(67)	(71)
Loans sold	—	(1)	—	—	(1)
Payments	(57)	(33)	(29)	(52)	(32)
Transfers to OREO	(5)	(5)	(4)	(8)	(10)
Loans returned to accrual status	(20)	(54)	(41)	(24)	(57)
Balance at end of period ^(a)	\$645	\$545	\$541	\$503	\$517

(a) Nonperforming loan balances exclude \$606 million, \$629 million, \$690 million, \$738 million, and \$783 million of PCI loans at September 30, 2018, June 30, 2018, March 31, 2018, December 31, 2017, and September 30, 2017, respectively.

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,

46

Table of contents

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. 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. The Operational Risk Committee supports the ERM Committee by identifying early warning events and trends, escalating emerging risks, and discussing forward-looking assessments. The Operational Risk Committee includes attendees from each of the Three Lines of Defense. 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 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 result in financial loss or liability that could adversely affect our financial condition or results of operations. Cyberattacks could also interfere with third-party providers' ability to fulfill their contractual obligations to us. Recent high-profile cyberattacks have targeted retailers, credit bureaus, 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. We may also incur expenses to enhance our systems or processes to protect against cyber or other security incidents. 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.

As described in more detail starting on page 67 of our 2017 Form 10-K under the heading “Risk Management - Overview,” 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’s Risk Committee has primary oversight for

Table of contents

enterprise-wide risk at KeyCorp, including operational risk (which includes cybersecurity). The Risk Committee reviews and provides oversight of management’s activities related to the enterprise-wide risk management framework, including cyber-related risk. The ERM Committee, chaired by the Chief Executive Officer and comprising other senior level executives, is responsible for managing risk (including cyber-related risk) and ensuring that the corporate risk profile is managed in a manner consistent with our risk appetite. The ERM Committee reports to the Board’s Risk Committee.

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”) beginning on page 100 of our 2017 Form 10-K should be reviewed for a greater understanding of how we record and report our financial performance. Note 1 (“Basis of Presentation and Accounting Policies”) of this report should also be reviewed for more information on accounting standards that have been adopted during the period.

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.

We rely heavily on the use of judgment, assumptions, and estimates to make a number of core decisions, including accounting for the ALLL; contingent liabilities, guarantees and income taxes; derivatives and related hedging activities; and assets and liabilities that involve valuation methodologies. In addition, we may employ outside valuation experts to assist us in determining fair values of certain assets and liabilities. A brief discussion of each of these areas appears on pages 86 through 89 of our 2017 Form 10-K.

During the first nine months of 2018, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

Accounting and Reporting Developments**Accounting Guidance Pending Adoption at September 30, 2018**

Standard	Required Adoption	Description	Effect on Financial Statements or Other Significant Matters
ASU 2016-02, Leases (Topic 842)	January 1, 2019	The ASU creates ASC Topic 842, <i>Leases</i> , and supersedes Topic 840, <i>Leases</i> . The ASU requires that a lessee recognize assets and liabilities for leases with lease terms of more than 12 months.	The implementation team has substantially completed the identification of leases for adoption of the standard including the evaluation of service contracts for embedded leases. Ongoing implementation efforts include the consideration of available practical expedients, development of new lease accounting policies, and deployment of a new lease software solution. Additionally, in conjunction with the implementation, Key is reviewing business processes and evaluating potential changes to the control environment.
ASU 2018-01, Leases (Topic 842): Land Easement Practical Expedient	Early adoption is permitted	For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Leveraged leases that commenced before the effective date of the new guidance are grandfathered. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease.	Key’s adoption of this guidance on January 1, 2019, will result in an increase in right-of-use assets and associated lease liabilities arising from operating leases in which Key is the lessee on our Consolidated Balance Sheet. Key will utilize the adoption date
ASU 2018-10 Codification Improvements to			

Topic 842

ASU 2018-11,
Leases (Topic
842): Targeted
Improvements

However, the ASU will require both types of leases to be recognized on the balance sheet. It also requires enhanced disclosures to better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements.

The guidance should be adopted using a modified retrospective approach. However, entities may choose to measure and present the changes at the beginning of the earliest period presented, or to reflect the changes as of the adoption date.

transition method and record a cumulative effect adjustment to retained earnings on January 1, 2019. Therefore, right of use assets, lease liabilities, and other changes as a result of adoption will not be reflected in comparable periods presented prior to that date. The amount of the right-of-use assets and associated lease liabilities recorded at adoption will be primarily based on the present value of unpaid future minimum lease payments, the amount of which will reflect the population of leases in effect at the date of adoption. Key's minimum future rental payments under noncancelable operating leases at December 31, 2017 were \$962 million (refer to Note 22 ("Commitments, Contingent Liabilities, and Guarantees") in our 2017 Form 10-K). Based on the lease portfolio at that time, Key would anticipate a balance sheet impact upon adoption in the range of \$850 million to \$950 million. Key expects the impact on January 1, 2019, to be consistent with this estimate, subject to changes to Key's lease portfolio and the applicable discount rates at adoption. The evaluation and review of leases and service contracts will continue through the adoption date as Key enters into new agreements and as lease portfolios change.

We do not expect the adoption of this guidance to have a material impact on the recognition of operating lease expense in our Consolidated Statements of Income.

Table of contents

Standard	Required Adoption	Description	Effect on Financial Statements or Other Significant Matters
ASU 2017-08, <i>Premium Amortization on Purchased Callable Debt Securities</i>	January 1, 2019 Early adoption is permitted.	The ASU amends ASC Topic 310-20, <i>Receivables — Nonrefundable Fees and Other Costs</i> , and shortens the amortization period to the earliest call date for certain callable debt securities held at a premium. Securities held at a discount will continue to be amortized to maturity. The guidance should be implemented on a modified retrospective basis using a cumulative-effect adjustment.	The adoption of this guidance is not expected to have a material effect on our financial condition or results of operations. This new guidance will affect the accounting for our loans, debt securities held to maturity and available for sale, and liabilities 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.
ASU 2016-13, <i>Measurement of Credit Losses on Financial Instruments</i>	January 1, 2020 Early adoption is permitted as of January 1, 2019	The ASU amends ASC Topic 326, <i>Financial Instruments—Credit Losses</i> , and significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaces today's "incurred loss" approach with an "expected loss" model for instruments such as loans and held-to-maturity securities that are measured at amortized cost. The standard requires credit losses relating to available-for-sale debt securities to be recorded through an allowance rather than a reduction of the carrying amount. It also changes the accounting for purchased credit-impaired debt securities and loans. The ASU retains many of the current disclosure requirements in current GAAP and expands certain disclosure requirements.	Key has formed cross-functional implementation working groups comprised of teams throughout Key, including finance, credit, and modeling. The implementation team has developed a detailed project plan, identified and documented certain key policy decisions, and determined modeling techniques and technology solutions to meet the requirements of the new guidance. Education sessions on the substantial changes caused by the standard are ongoing. Significant progress has been made on the identification of required data, development and validation of models, establishment of macroeconomic forecasting methodologies and approaches, including the reasonable and supportable period, and documentation of accounting policy decisions. Additionally, a software tool is being implemented to execute models in a controlled, automated environment. A CECL parallel production is expected to be run during 2019. Key expects that the new guidance will generally result in an increase in its allowance for credit losses for loans, unfunded lending-related commitments, and purchased financial assets with credit deterioration, as it will cover credit losses over the full remaining expected life of loans and commitments and will consider future changes in macroeconomic conditions. Since the magnitude of the anticipated increase in the allowance for credit losses will be impacted by economic conditions and trends in the Company's portfolio at the time of adoption and the implementation and testing of forecasting methodologies, the quantitative impact cannot yet be reasonably estimated. While we are still assessing the new standard, the adoption of this guidance is not anticipated to have a material impact on the available-for-sale debt securities or held-to-maturity securities measured at amortized cost.
ASU 2017-04, <i>Simplifying the Test for Goodwill Impairment</i>	January 1, 2020 Early adoption is permitted	The ASU amends ASC Topic 350, <i>Intangibles - Goodwill and Other</i> and eliminates the second step of the test for goodwill impairment. 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. The new method applies to all reporting units and the performance of a qualitative assessment is still allowable. The guidance should be implemented using a prospective approach.	The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Table of contents

Standard	Required Adoption	Description	Effect on Financial Statements or Other Significant Matters
ASU 2018-14, <i>Changes to the Disclosure Requirements for Defined Benefit Plans</i>	January 1, 2020 Early adoption is permitted	The ASU amends the disclosure requirements for sponsors of defined benefit plans. Entities are required to provide new disclosures, including the weighted-average interest crediting rate for cash balance plans and explanations for the significant gains and losses related to changes in the benefit obligation for the period. Certain existing disclosure requirements are eliminated. The guidance should be adopted using a retrospective approach.	The adoption of this standard will not result in significant changes to Key's disclosures and there will be no effect to our financial condition or results of operations. Key is evaluating the impact of the adoption of this accounting guidance on its financial statements and related disclosures.
ASU 2018-15, <i>Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract</i>	January 1, 2020 Early adoption is permitted	The ASU amends ASC Topic 350-40 to align the accounting for costs incurred in a cloud computing arrangement with the guidance on developing internal use software. Specifically, if a cloud computing arrangement is deemed to be a service contract, certain implementation costs are eligible for capitalization. The new guidance prescribes the balance sheet and income statement presentation and cash flow classification for the capitalized costs and related amortization expense. It also requires additional quantitative and qualitative disclosures. The guidance may be adopted prospectively or retrospectively.	Key is evaluating the impact of the adoption of this accounting guidance on its financial statements and related disclosures.

Table of contents**European Sovereign and Nonsovereign Debt Exposures**

Our total European sovereign and Nonsovereign debt exposure is presented in Figure 36.

Figure 36. European Sovereign and Nonsovereign Debt Exposures

September 30, 2018 <i>in millions</i>	Short-and Long- Term Commercial Total ^(a)	Foreign Exchange and Derivatives with Collateral ^(b)	Net Exposure
France:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	\$ (2)	\$ (2)
Nonsovereign non-financial institutions	\$ 2	—	2
Total	2	(2)	—
Germany:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	19	—	19
Total	19	—	19
Italy:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	4	—	4
Total	4	—	4
Luxembourg:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	8	—	8
Total	8	—	8
Spain:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	1	—	1
Total	1	—	1
Switzerland:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	(1)	(1)
Nonsovereign non-financial institutions	56	—	56
Total	56	(1)	55
United Kingdom:			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	142	142
Nonsovereign non-financial institutions	29	—	29
Total	29	142	171
Other Europe: ^(c)			
Sovereigns	—	—	—
Nonsovereign financial institutions	—	—	—
Nonsovereign non-financial institutions	—	—	—
Total	—	—	—
Total Europe:			
Sovereigns	—	—	—

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Nonsovereign financial institutions	—	139	139
Nonsovereign non-financial institutions	119	—	119
Total	\$ 119	\$ 139	\$ 258

(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, Greece, Hungary, Iceland, Ireland, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, Sweden, and Ukraine. 100% of our current exposure in Other Europe is in Austria.

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.

Table of contents**Item 1. Financial Statements****Consolidated Balance Sheets**

<i>in millions, except per share data</i>	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	\$ 319	\$ 671
Short-term investments	2,272	4,447
Trading account assets	958	836
Securities available for sale	18,341	18,139
Held-to-maturity securities (fair value: \$11,261 and \$11,565)	11,869	11,830
Other investments	681	726
Loans, net of unearned income of \$674 and \$736	89,268	86,405
Less: Allowance for loan and lease losses	(887)	(877)
Net loans	88,381	85,528
Loans held for sale ^(a)	1,618	1,107
Premises and equipment	891	930
Operating lease assets	930	821
Goodwill	2,516	2,538
Other intangible assets	338	416
Corporate-owned life insurance	4,156	4,132
Accrued income and other assets	4,378	4,237
Discontinued assets	1,157	1,340
Total assets	\$ 138,805	\$ 137,698
LIABILITIES		
Deposits in domestic offices:		
NOW and money market deposit accounts	\$ 57,219	\$ 53,627
Savings deposits	4,948	6,296
Certificates of deposit (\$100,000 or more)	8,453	6,849
Other time deposits	5,130	4,798
Total interest-bearing deposits	75,750	71,570
Noninterest-bearing deposits	30,030	33,665
Total deposits	105,780	105,235
Federal funds purchased and securities sold under repurchase agreements	1,285	377
Bank notes and other short-term borrowings	637	634
Accrued expense and other liabilities	2,044	2,094
Long-term debt	13,849	14,333
Total liabilities	123,595	122,673
EQUITY		
Preferred stock	1,450	1,025
Common Shares, \$1 par value; authorized 1,400,000,000 shares; issued 1,256,702,081, and 1,256,702,081 shares	1,257	1,257

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Capital surplus	6,315		6,335	
Retained earnings	11,262		10,335	
Treasury stock, at cost (222,414,857 and 187,617,832 shares)	(3,910))	(3,150))
Accumulated other comprehensive income (loss)	(1,166)	)	(779))
Key shareholders' equity	15,208		15,023	
Noncontrolling interests	2		2	
Total equity	15,210		15,025	
Total liabilities and equity	\$ 138,805		\$ 137,698	

(a) Total loans held for sale include real estate — residential mortgage loans held for sale at fair value of \$87 million at September 30, 2018, and \$71 million at December 31, 2017. See Notes to Consolidated Financial Statements (Unaudited).

Table of contents**Consolidated Statements of Income***dollars in millions, except per share amounts*

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
INTEREST INCOME				
Loans	\$1,025	\$ 928	\$2,965	\$ 2,753
Loans held for sale	12	17	40	39
Securities available for sale	102	91	294	276
Held-to-maturity securities	72	55	213	161
Trading account assets	7	7	21	21
Short-term investments	15	6	31	14
Other investments	6	5	17	12
Total interest income	1,239	1,109	3,581	3,276
INTEREST EXPENSE				
Deposits	140	72	343	196
Federal funds purchased and securities sold under repurchase agreements	1	—	10	1
Bank notes and other short-term borrowings	4	3	17	12
Long-term debt	108	86	302	228
Total interest expense	253	161	672	437
NET INTEREST INCOME	986	948	2,909	2,839
Provision for credit losses	62	51	187	180
Net interest income after provision for credit losses	924	897	2,722	2,659
NONINTEREST INCOME				
Trust and investment services income	117	135	378	404
Investment banking and debt placement fees	166	141	464	403
Service charges on deposit accounts	85	91	265	268
Operating lease income and other leasing gains	35	16	61	69
Corporate services income	52	54	175	163
Cards and payments income	69	75	202	210
Corporate-owned life insurance income	34	31	98	94
Consumer mortgage income	9	7	23	19
Mortgage servicing fees	19	21	61	54
Other income ^(a)	23	21	143	138
Total noninterest income	609	592	1,870	1,822
NONINTEREST EXPENSE				
Personnel	553	559	1,733	1,669
Net occupancy	76	74	233	239
Computer processing	52	56	155	171
Business services and professional fees	43	49	135	140
Equipment	27	29	79	83
Operating lease expense	31	24	88	64
Marketing	26	34	77	85
FDIC assessment	21	21	63	62
Intangible asset amortization	23	25	77	69
OREO expense, net	3	3	5	8
Other expense	109	118	318	410
Total noninterest expense	964	992	2,963	3,000
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	569	497	1,629	1,481

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Income taxes	87	134	252	386
INCOME (LOSS) FROM CONTINUING OPERATIONS	482	363	1,377	1,095
Income (loss) from discontinued operations	—	1	5	6
NET INCOME (LOSS)	482	364	1,382	1,101
Less: Net income (loss) attributable to noncontrolling interests	—	—	—	1
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	\$482	\$ 364	\$1,382	\$ 1,100
Income (loss) from continuing operations attributable to Key common shareholders	\$468	\$ 349	\$1,334	\$ 1,038
Net income (loss) attributable to Key common shareholders	468	350	1,339	1,044
Per Common Share:				
Income (loss) from continuing operations attributable to Key common shareholders	\$.45	\$.32	\$1.28	\$.96
Income (loss) from discontinued operations, net of taxes	—	—	.01	.01
Net income (loss) attributable to Key common shareholders ^(b)	.45	.32	1.27	.97
Per Common Share — assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	\$.45	\$.32	\$1.26	\$.95
Income (loss) from discontinued operations, net of taxes	—	—	.01	.01
Net income (loss) attributable to Key common shareholders ^(b)	.45	.32	1.26	.96
Cash dividends declared per Common Share	\$.17	\$.095	\$.395	\$.275
Weighted-average Common Shares outstanding (000)	1,036,479	73,390	1,048,397	75,296
Effect of Common Share options and other stock awards	13,497	15,451	14,419	16,359
Weighted-average Common Shares and potential Common Shares outstanding (000) ^(c)	1,049,976	88,841	1,062,816	91,655

(a) For the three and nine months ended September 30, 2018, net securities gains totaled less than \$1 million. For the three and nine months ended September 30, 2017, net securities gains totaled \$1 million. For the three and nine months ended September 30, 2018, and September 30, 2017, 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 (Unaudited).

Table of contents**Consolidated Statements of Comprehensive Income**

<i>in millions</i>	Three months ended September 30,		Nine months ended September 30,	
(Unaudited)	2018	2017	2018	2017
Net income (loss)	\$482	\$364	\$1,382	\$1,101
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$22), \$0, (\$89), and \$24	(72)	)—	(288)	)40
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$5), (\$6), (\$29), and (\$16)	(12)	)(10)	(92)	)(27)
Foreign currency translation adjustments, net of income taxes of \$0, \$4, \$3, and \$8	1	7	(15)	)14
Net pension and postretirement benefit costs, net of income taxes of \$1, \$1, \$3, and \$4	2	3	8	8
Total other comprehensive income (loss), net of tax	(81)	)—	(387)	)35
Comprehensive income (loss)	401	364	995	1,136
Less: Comprehensive income attributable to noncontrolling interests	—	—	—	1
Comprehensive income (loss) attributable to Key	\$401	\$364	\$995	\$1,135

See Notes to Consolidated Financial Statements (Unaudited).

Table of contents**Consolidated Statements of Changes in Equity**

<i>dollars in millions, except per share amounts</i> (Unaudited)	Key Shareholders' Equity					Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus				
BALANCE AT DECEMBER 31, 2017	521	1,069,084	\$ 1,025	\$ 1,257	\$ 6,335	\$ 10,335	\$(3,150)	\$(779)	\$ 2
Cumulative effect from changes in accounting principle ^(a)						(2)			
Other reclassification of AOCI						5			
Net income (loss)						1,382			—
Other comprehensive income (loss)								(387)	
Deferred compensation					16				
Cash dividends declared									
Common Shares (\$.395 per share)						(415)			
Series D Preferred Stock (\$37.50 per depositary share)						(20)			
Series E Preferred Stock (\$1.148439 per depositary share)						(23)			
Issuance of Series F Preferred Stock	425	425		(13)					
Open market Common Share repurchases		(38,806)					(820)		
Employee equity compensation program Common Share repurchases		(2,271)					(47)		
Common Shares reissued (returned) for stock options and other employee benefit plans		6,280		(23)			107		
BALANCE AT SEPTEMBER 30, 2018	946	1,034,287	\$ 1,450	\$ 1,257	\$ 6,315	\$ 11,262	\$(3,910)	\$(1,166)	\$ 2
BALANCE AT JUNE 30, 2018	521	1,058,944	1,025	1,257	6,315	10,970	(3,382)	(1,085)	2
Net income (loss)						482			—
Other comprehensive income (loss)								(81)	
Deferred compensation					4				
Cash dividends declared									
Common Shares (\$.17 per share)						(176)			
Series D Preferred Stock (\$12.50 per depositary share)						(7)			
Series E Preferred Stock (\$.382813 per depositary share)						(7)			
Issuance of Series F Preferred Stock	425	425		(13)					
Open market Common Share repurchases		(25,368)					(541)		
Employee equity compensation program Common Share repurchases		(50)					(1)		
Common Shares reissued (returned) for stock options and other employee benefit plans		761		9			14		
Net contribution from (distribution to) noncontrolling interests									—
BALANCE AT SEPTEMBER 30, 2018	946	1,034,287	\$ 1,450	\$ 1,257	\$ 6,315	\$ 11,262	\$(3,910)	\$(1,166)	\$ 2

(a) Includes the impact of implementing ASU 2014-09, ASU 2016-01, and ASU 2017-12. See Notes to Consolidated Financial Statements (Unaudited).

Consolidated Statements of Changes in Equity

<i>dollars in millions, except per share amounts</i> (Unaudited)	Key Shareholders' Equity					Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus				
BALANCE AT DECEMBER 31, 2016	17,421	1,079,314	\$ 1,665	\$ 1,257	\$ 6,385	\$ 9,378	\$(2,904)	\$(541)	\$ —
Net income (loss)						1,100			1
Other comprehensive income (loss)								35	
Deferred compensation					11				
Cash dividends declared									
Common Shares (\$.275 per share)						(296)			

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Series A Preferred Stock (\$1.9375 per share)						(6)			
Series C Preferred Stock (\$.539063 per share)						(7)			
Series D Preferred Stock (\$37.50 per depositary share)						(20)			
Series E Preferred Stock (\$1.161199 per depositary share)						(24)			
Open market Common Share repurchases	(25,564	)						(466)	
Employee equity compensation program Common Share repurchases	(3,479	)						(65)	
Series A Preferred Stock exchanged for Common Shares	(2,900	)	20,568	(290	)	(49	)			338
Redemption of Series C Preferred Stock	(14,000)			(350)					
Common Shares reissued (returned) for stock options and other employee benefit plans	8,200					(37	)			135
BALANCE AT SEPTEMBER 30, 2017	521	1,079,039	\$ 1,025	\$ 1,257	\$ 6,310	\$ 10,125		\$(2,962)		\$(506) \$ 1
BALANCE AT JUNE 30, 2017	521	1,092,739	\$ 1,025	\$ 1,257	\$ 6,310	\$ 9,878		\$(2,711)		\$(506) \$ 2
Net income (loss)						364				—
Other comprehensive income (loss):										\$ —
Deferred compensation				4						
Cash dividends declared										
Common Shares (\$.095 per share)						(102)			
Series D Preferred Stock (\$12.50 per depositary share)						(7)			
Series E Preferred Stock (\$.382813 per depositary share)						(8)			
Open market Common Share repurchases	(14,962	)						(270)	
Employee equity compensation program Common Share repurchases	(336	)						(6)	
Common shares reissued (returned) for stock options and other employee benefit plans	1,598					(4	)			25
Net contribution from (distribution to) noncontrolling interests										(1)
BALANCE AT SEPTEMBER 30, 2017	521	1,079,039	\$ 1,025	\$ 1,257	\$ 6,310	\$ 10,125		\$(2,962)		\$(506) \$ 1

See Notes to Consolidated Financial Statements (Unaudited).

Table of contents**Consolidated Statements of Cash Flows**

<i>in millions</i>	Nine months ended September 30,	
(Unaudited)	2018	2017
OPERATING ACTIVITIES		
Net income (loss)	\$1,382	\$1,101
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for credit losses	187	180
Depreciation and amortization expense, net	290	301
Accretion of acquired loans	69	171
Increase in cash surrender value of corporate-owned life insurance	(84)	(85)
Stock-based compensation expense	78	74
FDIC reimbursement (payments), net of FDIC expense	2	(2)
Deferred income taxes (benefit)	103	134
Proceeds from sales of loans held for sale	8,234	8,109
Originations of loans held for sale, net of repayments	(8,631)	(8,287)
Net losses (gains) on sales of loans held for sale	(130)	(111)
Net losses (gains) and writedown on OREO	(2)	3
Net losses (gains) on leased equipment	(34)	2
Net securities losses (gains)	—	(1)
Net losses (gains) on sales of fixed assets	8	16
Net decrease (increase) in trading account assets	(122)	84
Gain on sale of KIBS	(83)	—
Other operating activities, net	(473)	(610)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	794	1,079
INVESTING ACTIVITIES		
Cash received (used) in acquisitions, net of cash acquired	—	(74)
Proceeds from sale of KIBS	124	—
Net decrease (increase) in short-term investments, excluding acquisitions	2,175	(1,218)
Purchases of securities available for sale	(3,058)	(2,725)
Proceeds from sales of securities available for sale	—	914
Proceeds from prepayments and maturities of securities available for sale	2,456	3,038
Proceeds from prepayments and maturities of held-to-maturity securities	1,206	1,350
Purchases of held-to-maturity securities	(1,242)	(1,395)
Purchases of other investments	(21)	(78)
Proceeds from sales of other investments	36	99
Proceeds from prepayments and maturities of other investments	37	2
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	(3,249)	(896)
Proceeds from sales of portfolio loans	143	129
Proceeds from corporate-owned life insurance	60	40
Purchases of premises, equipment, and software	(73)	(56)
Proceeds from sales of premises and equipment	1	—
Proceeds from sales of OREO	22	37
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,383)	(833)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits, excluding acquisitions	545	(641)
Net increase (decrease) in short-term borrowings	911	(1,322)
Net proceeds from issuance of long-term debt	1,802	2,850

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Payments on long-term debt	(2,127)	(43)
Issuance of preferred shares	412	—
Open market Common Share repurchases	(820)	(466)
Employee equity compensation program Common Share repurchases	(47)	(65)
Redemption of Preferred Stock Series C	—	(350)
Net proceeds from reissuance of Common Shares	19	29
Cash dividends paid	(458)	(353)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	237	(361)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	(352)	(115)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	671	677
CASH AND DUE FROM BANKS AT END OF PERIOD	\$319	\$562
Additional disclosures relative to cash flows:		
Interest paid	\$632	\$442
Income taxes paid (refunded)	22	3
Noncash items:		
Reduction of secured borrowing and related collateral	\$18	33
Loans transferred to portfolio from held for sale	21	93
Loans transferred to held for sale from portfolio	7	41
Loans transferred to OREO	19	29

See Notes to Consolidated Financial Statements (Unaudited).

Table of contents

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation and Accounting Policies

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 affect 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 9 ("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% are carried at the cost measurement alternative or at fair value. Investments held by our registered broker-dealer and investment company subsidiaries (principal investing entities and Real Estate Capital line of business) are carried at fair value.

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2017 Form 10-K.

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.

Table of contents

Accounting Guidance Adopted in 2018

58

Table of contents

Standard	Date of Adoption	Description	Effect on Financial Statements or Other Significant Matters
ASU 2018-13, <i>Fair Value Measurement: Disclosure Framework</i>	September 30, 2018 (removed disclosures only)	The ASU amends disclosure requirements related to fair value measurements. Specifically, entities are no longer required to disclose transfers between Level 1 and Level 2 of the fair value hierarchy, or qualitatively disclose the valuation process for Level 3 fair value measurements. The updated guidance requires disclosure of the changes in unrealized gains and losses for the period included in Other Comprehensive Income for recurring Level 3 fair value measurements. Entities also will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements.	Key has early adopted the disclosures no longer required by the guidance as of September 30, 2018, and anticipates early adopting the additional provisions of the standard in the first quarter of 2019. The adoption of this standard will not result in significant changes to Key's disclosures and there will be no effect to our financial condition or results of operations.
ASU 2014-09, <i>Revenue from Contracts with Customers (Topic 606)</i>	January 1, 2018	These ASUs supersede the revenue recognition guidance in ASC 605, <i>Revenue Recognition</i> , and most industry-specific guidance. The core principle of these ASUs 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.	On January 1, 2018, we adopted ASC 606, <i>Revenue from Contracts with Customers (ASC 606)</i> , using the modified retrospective method for those contracts which were not completed as of that date. Results for reporting periods beginning January 1, 2018, are presented under ASC 606. As allowed under the new guidance, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.
ASU 2015-14, <i>Deferral of Effective Date</i>			
ASU 2016-08, <i>Principal versus Agent Considerations</i>			
ASU 2016-10, <i>Identifying Performance Obligations and Licensing</i>		These ASUs can be implemented using a retrospective method, or a cumulative-effect approach to new contracts and existing contracts with performance obligations as of the effective date.	As a result of adopting ASC 606, we changed the timing of recognition for revenues related to insurance commissions, securities underwriting, and deposit account maintenance fees, however, those changes did not have a material impact on our consolidated financial statements, results of operations, equity, or cash flows as of the adoption date or for the nine months ended September 30, 2018.
ASU 2016-11, <i>Rescission of SEC Guidance because of Accounting Standard Updates 2014-09 and 2014-16 pursuant to Staff Announcements at the March 3, 2016 EITF Meeting</i>			
ASU 2016-12, <i>Narrow-scope Improvements and Practical Expedients</i>			The presentation of underwriting costs and reimbursed out-of-pocket expenses related to underwriting and M&A advisory services was changed from net to gross within the income statement as Key acts as the principal in the transactions. Securities underwriting revenue is recorded within "investment banking and debt placement fees" and underwriting costs and reimbursed out-of-pocket expenses within "other expense" on the income statement. Additionally, because Key acts as an agent, certain credit and debit card reward costs and certain card network costs were changed from a gross presentation to net within "cards and payment income" on the income statement. Credit and debit card reward costs and card network costs were recorded as "other expense" on the income statement in prior periods. These changes in presentation did not have a material impact on our consolidated financial statements for the nine months ended September 30, 2018.
ASU 2016-20, <i>Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers</i>			ASC 606 requires quantitative disclosure of the allocation of the transaction price to the remaining performance obligations when those amounts are expected to be recognized as revenue. However, the standard provides exemptions from this disclosure for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services provided.

Most of our revenue subject to ASC 606 fits into one of these exemptions, or is immaterial. We elected to use the optional exemption to not disclose the aggregate amount of the transaction price to remaining performance obligations.

On January 1, 2018, we adopted this ASU using a modified retrospective basis. Accordingly, our financial statements for the quarter ended September 30, 2018, include an immaterial cumulative-effect adjustment to decrease opening retained earnings to reflect the application of the new guidance as of January 1, 2018. The primary impact to Key at adoption was the election to measure the change in fair value of hedged items in fair value hedges on the basis of the benchmark interest rate component of contractual coupon cash flows. This change has resulted in a reduction of hedge ineffectiveness for impacted fair value hedges.

Instruments designated as hedges are recorded at fair value and included in "accrued income and other assets" or "accrued expense and other liabilities" on the balance sheet. Under the revised guidance, the change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time and in the same income statement line as the offsetting change in the fair value of the hedged item. For cash flow hedges, the change in the fair value of an instrument designated as a cash flow hedge is initially recorded in AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item.

<p>ASU 2017-12, <i>Targeted Improvements to Accounting for Hedging Activities</i></p>	<p>January 1, 2018</p>	<p>The ASU amends ASC Topic 815, <i>Derivatives and Hedging</i>, to simplify the requirements for hedge accounting and facilitate financial reporting that more closely aligns with an entity's risk management activities. Key amendments include: eliminating the requirement to separately measure and report hedge ineffectiveness, requiring changes in the value of the hedging instrument to be presented in the same income statement line as the earnings effect of the hedged item, and the ability to measure the hedged item based on the benchmark interest rate component of the total contractual coupon for fair value hedges.</p> <p>Additional disclosures are also required for reporting periods subsequent to the date of adoption.</p> <p>The guidance should be implemented on a modified retrospective basis to existing hedge relationships as of the adoption date.</p>
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Standard	Date of Adoption	Description	Effect on Financial Statements or Other Significant Matters
<p>ASU 2016-01, <i>Recognition and Measurement of Financial Assets and Financial Liabilities</i></p>	<p>January 1, 2018</p>	<p>The ASU amends ASC Topic 825, <i>Financial Instruments-Overall</i>, and 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 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.</p> <p>With the exception of disclosure requirements that will be adopted prospectively, the ASU must be adopted on a modified retrospective basis.</p>	<p>The adoption of this guidance did not have a material effect on our financial condition or results of operations.</p>
<p>ASU 2016-15, <i>Classification of Certain Cash Receipts and Cash Payments</i></p>	<p>January 1, 2018</p>	<p>The ASU amends ASC Topic 230, <i>Statement of Cash Flows</i>, and clarifies how cash receipts and cash payments in certain 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.</p>	<p>The adoption of this guidance did not have a material effect on our financial condition or results of operations.</p>
<p>ASU 2017-01, <i>Clarifying the Definition of a Business</i></p>	<p>January 1, 2018</p>	<p>The guidance should be implemented using a retrospective approach.</p> <p>The ASU amends Topic 805, <i>Business Combinations</i>, and clarifies the definition of a business and removes the requirement for a market participant to consider whether it 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.</p>	<p>The adoption of this guidance did not have a material effect on our financial condition or results of operations.</p>

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<p>ASU 2017-05, <i>Other Income- Gains and Losses from the Derecognition of Nonfinancial Assets</i></p>	<p>January 1, 2018</p>	<p>The guidance should be implemented using a prospective approach.</p> <p>The ASU amends ASC Topic 610-20, <i>Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets</i> to clarify the scope of the Topic by clarifying the definition of the term "in substance nonfinancial asset" and also adding guidance for partial sales of nonfinancial assets. Under the new guidance, an entity will derecognize a nonfinancial asset when it does not have or ceases to have a controlling interest in the legal entity that holds the asset and when control of the asset has transferred in accordance with ASC 606. The ASU can be adopted on a retrospective or modified retrospective approach.</p>	<p>The adoption of this guidance did not have a material effect on our financial condition or results of operations.</p>
<p>ASU 2017-07, <i>Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost</i></p>	<p>January 1, 2018</p>	<p>The ASU amends ASC Topic 715, <i>Compensation - Retirement Benefits</i>, and requires service costs to be included in the same line item as certain other compensation costs related to services rendered by employees. We record compensation costs under personnel expense on the income statement. Other elements of net benefit cost should be presented separately.</p> <p>The guidance should be implemented on a retrospective basis.</p>	<p>The adoption of this guidance did not have a material effect on our financial condition or results of operations.</p>
<p>ASU 2017-09, <i>Scope of Modification Accounting</i></p>	<p>January 1, 2018</p>	<p>The ASU amends ASC Topic 718, <i>Compensation - Stock Compensation</i>, and clarifies when changes to terms and conditions for share-based payment awards should be accounted for as modifications. Under the new guidance, entities should apply the modification guidance unless the fair value of the modified award is the same as the fair value of the original award immediately before modification, the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before modification, and the classification of the modified award (as equity or liability instrument) is the same as the classification of the original award immediately before modification.</p> <p>The guidance should be applied on a prospective basis.</p>	<p>The adoption of this guidance did not have a material effect on our financial condition or results of operations.</p>

Table of contents**2. Earnings Per Common Share**

Basic earnings per share is the amount of earnings (adjusted for dividends declared on our preferred stock) available to each Common Share outstanding during the reporting periods. Diluted earnings per share is the amount of earnings available to each Common Share outstanding during the reporting periods adjusted to include the effects of potentially dilutive Common Shares. Potentially dilutive Common Shares include 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.

Our basic and diluted earnings per Common Share are calculated as follows:

<i>dollars in millions, except per share amounts</i>	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
EARNINGS				
Income (loss) from continuing operations	\$ 482	\$ 363	\$ 1,377	\$ 1,095
Less: Net income (loss) attributable to noncontrolling interests	—	—	—	1
Income (loss) from continuing operations attributable to Key	482	363	1,377	1,094
Less: Dividends on Preferred Stock	14	14	43	56
Income (loss) from continuing operations attributable to Key common shareholders	468	349	1,334	1,038
Income (loss) from discontinued operations, net of taxes	—	1	5	6
Net income (loss) attributable to Key common shareholders	\$ 468	\$ 350	\$ 1,339	\$ 1,044
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average Common Shares outstanding (000)	1,036,477	1,390	1,048,397	1,296
Effect of Common Share options and other stock awards	13,497	15,451	14,419	16,359
Weighted-average Common Shares and potential Common Shares outstanding (000) ^(a)	1,049,974	15,841	1,062,816	16,655
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	\$.45	\$.32	\$ 1.28	\$.96
Income (loss) from discontinued operations, net of taxes	—	—	.01	.01
Net income (loss) attributable to Key common shareholders ^(b)	.45	.32	1.27	.97
Income (loss) from continuing operations attributable to Key common shareholders — assuming dilution	\$.45	\$.32	\$ 1.26	\$.95
Income (loss) from discontinued operations, net of taxes — assuming dilution	—	—	.01	.01
Net income (loss) attributable to Key common shareholders — assuming dilution ^(b)	.45	.32	1.26	.96

(a) Assumes conversion of Common Share options and other stock awards and/or convertible preferred stock, as applicable.

(b) EPS may not foot due to rounding.

3. Loan Portfolio

<i>in millions</i>	September 30, December 31,	
	2018	2017
Commercial and industrial ^(a)	\$ 45,023	\$ 41,859
Commercial real estate:		
Commercial mortgage	14,716	14,088
Construction	1,763	1,960
Total commercial real estate loans	16,479	16,048
Commercial lease financing ^(b)	4,470	4,826
Total commercial loans	65,972	62,733
Residential — prime loans:		
Real estate — residential mortgage	5,497	5,483

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Home equity loans	11,339	12,028
Total residential — prime loans	16,836	17,511
Consumer direct loans	1,807	1,794
Credit cards	1,098	1,106
Consumer indirect loans	3,555	3,261
Total consumer loans	23,296	23,672
Total loans ^(c)	\$ 89,268	\$ 86,405

^(a) Loan balances include \$129 million and \$119 million of commercial credit card balances at September 30, 2018, and December 31, 2017, respectively.

Commercial lease financing includes receivables held as collateral for a secured borrowing of \$12 million and \$24 million at September 30, 2018, and December 31, 2017, respectively.

^(b) Principal reductions are based on the cash payments received from these related receivables. Additional information pertaining to this secured borrowing is included in Note 20 ("Long-Term Debt") beginning on page 174 of our 2017 Form 10-K.

^(c) Total loans exclude loans of \$1.1 billion at September 30, 2018, and \$1.3 billion at December 31, 2017, related to the discontinued operations of the education lending business.

4. Asset Quality

We assess the credit quality of the loan portfolio by monitoring net credit losses, levels of nonperforming assets, delinquencies, and credit quality ratings as defined by management.

60

Table of contents**Credit Quality Indicators**

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 refreshed FICO score 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)

in millions	Commercial and industrial		RE — Commercial		RE — Construction		Commercial lease		Total	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
RATING	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Pass	\$ 43,052	\$ 39,833	\$ 14,016	\$ 13,328	\$ 1,679	\$ 1,894	\$ 4,405	\$ 4,730	\$ 63,152	\$ 59,785
Criticized (Accruing)	1,691	1,790	398	482	79	38	55	90	2,223	2,400
Criticized (Nonaccruing)	226	153	98	30	2	2	10	6	336	191
Total	\$ 44,969	\$ 41,776	\$ 14,512	\$ 13,840	\$ 1,760	\$ 1,934	\$ 4,470	\$ 4,826	\$ 65,711	\$ 62,376

(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)

in millions	Residential — Prime		Consumer direct loans		Credit cards		Consumer indirect loans		Total	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
FICO SCORE	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
750 and above	\$ 10,040	\$ 10,226	\$ 551	\$ 519	\$ 485	\$ 477	\$ 1,620	\$ 1,472	\$ 12,696	\$ 12,694
660 to 749	4,850	5,181	701	690	501	508	1,315	1,184	7,367	7,563
Less than 660	1,384	1,519	211	225	112	121	514	529	2,221	2,394
No Score	220	208	341	356	—	—	106	76	667	640
Total	\$ 16,494	\$ 17,134	\$ 1,804	\$ 1,790	\$ 1,098	\$ 1,106	\$ 3,555	\$ 3,261	\$ 22,951	\$ 23,291

(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 its 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)

in millions	Commercial and industrial		RE — Commercial		RE — Construction		Commercial Lease		Total	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
RATING	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017

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Pass	\$ 23	\$ 41	\$ 134	\$ 153	\$ 3	\$ 26	—	—	\$ 160	\$ 220
Criticized	31	42	70	95	—	—	—	—	101	137
Total	\$ 54	\$ 83	\$ 204	\$ 248	\$ 3	\$ 26	—	—	\$ 261	\$ 357

(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.

Table of contentsConsumer Credit Exposure – PCI
PCI Loans by Refreshed FICO Score (a)

in millions	Residential — Prime		Consumer direct loans		Credit cards		Consumer indirect loans		Total	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
FICO SCORE	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
750 and above	\$ 138	\$ 149	—	—	—	—	—	—	\$ 138	\$ 149
660 to 749	97	117	\$ 1	\$ 2	—	—	—	—	98	119
Less than 660	99	105	2	2	—	—	—	—	101	107
No Score	8	6	—	—	—	—	—	—	8	6
Total	\$ 342	\$ 377	\$ 3	\$ 4	—	—	—	—	\$ 345	\$ 381

(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 its debts. The scores are obtained from a nationally recognized consumer rating agency and are presented in the above table at the dates indicated.

Nonperforming and Past Due Loans

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” beginning on page 101 of our 2017 Form 10-K.

The following aging analysis of past due and current loans as of September 30, 2018, and December 31, 2017, provides further information regarding Key’s credit exposure.

Aging Analysis of Loan Portfolio (a)

September 30, 2018	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 and industrial	\$44,561	\$ 74	\$ 83	\$ 24	\$ 227	\$ 408	\$ 54	\$45,023
Commercial real estate:								
Commercial mortgage	14,347	24	20	23	98	165	204	14,716
Construction	1,715	20	14	9	2	45	3	1,763
Total commercial real estate loans	16,062	44	34	32	100	210	207	16,479
Commercial lease financing	4,449	9	1	1	10	21	—	4,470
Total commercial loans	\$65,072	\$ 127	\$ 118	\$ 57	\$ 337	\$ 639	\$ 261	\$65,972
Real estate — residential mortgage	\$5,094	\$ 13	\$ 3	\$ 2	\$ 62	\$ 80	\$ 323	\$5,497
Home equity loans	11,044	36	11	8	221	276	19	11,339
Consumer direct loans	1,779	9	5	7	4	25	3	1,807
Credit cards	1,075	6	5	10	2	23	—	1,098
Consumer indirect loans	3,498	29	6	3	19	57	—	3,555
Total consumer loans	\$22,490	\$ 93	\$ 30	\$ 30	\$ 308	\$ 461	\$ 345	\$23,296
Total loans	\$87,562	\$ 220	\$ 148	\$ 87	\$ 645	\$ 1,100	\$ 606	\$89,268

(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 PCI, 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 accruing 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 PCI loans is not included in the analysis of the loan portfolio.

Table of contents

December 31, 2017

in millions

	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 and industrial	\$41,444	\$ 111	\$ 34	\$ 34	\$ 153	\$ 332	83	\$41,859
Commercial real estate:								
Commercial mortgage	13,750	26	13	21	30	90	248	14,088
Construction	1,919	4	9	—	2	15	26	1,960
Total commercial real estate loans	15,669	30	22	21	32	105	274	16,048
Commercial lease financing	4,791	23	4	2	6	35	—	4,826
Total commercial loans	\$61,904	\$ 164	\$ 60	\$ 57	\$ 191	\$ 472	357	\$62,733
Real estate — residential mortgage	\$5,043	\$ 16	\$ 7	\$ 4	\$ 58	\$ 85	\$ 355	\$5,483
Home equity loans	11,721	32	15	9	229	285	22	12,028
Consumer direct loans	1,768	9	4	5	4	22	4	1,794
Credit cards	1,081	7	5	11	2	25	—	1,106
Consumer indirect loans	3,199	33	7	3	19	62	—	3,261
Total consumer loans	\$22,812	\$ 97	\$ 38	\$ 32	\$ 312	\$ 479	\$ 381	\$23,672
Total loans	\$84,716	\$ 261	\$ 98	\$ 89	\$ 503	\$ 951	\$ 738	\$86,405

(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 PCI, 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 accruing 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.

At September 30, 2018, the approximate carrying amount of our commercial nonperforming loans outstanding represented 80% of their original contractual amount owed, total nonperforming loans outstanding represented 83% of their original contractual amount owed, and nonperforming assets in total were carried at 83% of their original contractual amount owed.

Nonperforming loans and loans held for sale reduced expected interest income by \$8 million and \$22 million for the three and nine months ended September 30, 2018, respectively, and \$6 million and \$18 million for the three and nine months ended September 30, 2017, respectively.

Table of contents

The following tables set forth a further breakdown of individually impaired loans as of September 30, 2018, and December 31, 2017:

<i>in millions</i>	September 30, 2018			December 31, 2017		
	Recorded Investment	Unpaid Principal Balance ^(a) (b)	Specific Allowance	Recorded Investment	Unpaid Principal Balance ^(a) (b)	Specific Allowance
With no related allowance recorded:						
Commercial and industrial	\$ 187	\$ 255	—	\$ 126	\$ 153	—
Commercial real estate:						
Commercial mortgage	11	15	—	12	18	—
Total commercial real estate loans	11	15	—	12	18	—
Total commercial loans	198	270	—	138	171	—
Real estate — residential mortgage	15	22	—	17	17	—
Home equity loans	50	57	—	56	56	—
Consumer Direct	—	1	—	—	—	—
Consumer indirect loans	2	4	—	2	2	—
Total consumer loans	67	84	—	75	75	—
Total loans with no related allowance recorded	265	354	—	213	246	—
With an allowance recorded:						
Commercial and industrial	45	48	\$ 5	10	28	\$ 6
Commercial real estate:						
Commercial mortgage	65	66	11	—	—	—
Total commercial real estate loans	65	66	11	—	—	—
Total commercial loans	110	114	16	10	28	6
Real estate — residential mortgage	34	52	4	32	32	5
Home equity loans	77	84	7	61	61	9
Consumer direct loans	4	4	—	4	4	—
Credit cards	3	3	—	2	2	—
Consumer indirect loans	33	33	3	32	32	3
Total consumer loans	151	176	14	131	131	17
Total loans with an allowance recorded	261	290	30	141	159	23
Total	\$ 526	\$ 644	\$ 30	\$ 354	\$ 405	\$ 23

(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 the average individually impaired loans reported by Key:

<i>in millions</i>	Average Recorded Investment ^(a)		Average Unpaid Principal Balance ^(b)	
	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Commercial and industrial	\$ 209	\$ 162	\$ 184	\$ 221
Commercial real estate:				
Commercial mortgage	48	14	44	8
Total commercial real estate loans	48	14	44	8
Total commercial loans	257	176	228	229
Real estate — residential mortgage	49	49	49	50
Home equity loans	126	118	122	121

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Consumer direct loans	4	4	4	3
Credit cards	3	2	3	3
Consumer indirect loans	35	33	34	32
Total consumer loans	217	206	212	209
Total	\$ 474	\$ 382	\$ 440	\$ 438

^(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.

Interest income recognized on the outstanding balances of accruing impaired loans totaled \$4 million and \$9 million for the three and nine months ended September 30, 2018, respectively, and \$3 million and \$9 million for the three and nine months ended September 30, 2017, respectively.

TDRs

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. 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. This

Table of contents

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.

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 \$4 million and \$2 million at September 30, 2018, and December 31, 2017, 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. The consumer TDR other concession category primarily includes those borrowers' debts that are discharged through bankruptcy and have not been formally re-affirmed. At September 30, 2018, and December 31, 2017, the recorded investment of consumer residential mortgage loans in the process of foreclosure was approximately \$130 million and \$142 million, respectively. At September 30, 2018, and December 31, 2017, we had \$28 million and \$31 million, respectively, of OREO which included the carrying value of foreclosed residential real estate of approximately \$25 million and \$26 million, respectively.

The following table shows the post-modification outstanding recorded investment by concession type for our commercial and consumer accruing and nonaccruing TDRs that occurred during the periods indicated:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
<i>in millions</i>				
Commercial loans:				
Extension of Maturity Date	\$ 20	\$ 7	\$ 20	\$ 24
Payment or Covenant Modification/Deferment	26	—	46	32
Bankruptcy Plan Modification	—	—	7	30
Total	\$ 46	\$ 7	\$ 73	\$ 86
Consumer loans:				
Interest rate reduction	\$ 4	\$ 3	\$ 22	\$ 10
Other	10	8	29	21
Total	\$ 14	\$ 11	\$ 51	\$ 31
Total commercial and consumer TDRs	\$ 60	\$ 18	\$ 124	\$ 117

The following table summarizes the change in the post-modification outstanding recorded investment of our accruing and nonaccruing TDRs during the periods indicated:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
<i>in millions</i>				
Balance at beginning of the period	\$347	\$333	\$317	\$280
Additions	58	20	133	134
Payments	(28)	(36)	(69)	(83)
Charge-offs	(11)	(2)	(15)	(16)
Balance at end of period ^(a)	\$366	\$315	\$366	\$315

Table of contents

A further breakdown of TDRs included in nonperforming loans by loan category for the periods indicated are as follows:

<i>dollars in millions</i>	September 30, 2018			December 31, 2017		
	Number of Loans	Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Loans	Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
LOAN TYPE						
Nonperforming:						
Commercial and industrial	30	\$ 120	\$ 101	20	\$ 109	\$ 86
Commercial real estate:						
Commercial mortgage	6	14	10	8	16	12
Total commercial real estate loans	6	14	10	8	16	12
Total commercial loans	36	134	111	28	125	98
Real estate — residential mortgage	257	18	18	308	18	18
Home equity loans	1,233	72	66	1,025	64	57
Consumer direct loans	137	2	2	114	2	2
Credit cards	249	1	1	322	2	1
Consumer indirect loans	973	17	13	825	16	13
Total consumer loans	2,849	110	100	2,594	102	91
Total nonperforming TDRs	2,885	244	211	2,622	227	189
Prior-year accruing:^(a)						
Commercial and industrial	18	53	37	4	30	13
Total commercial loans	18	53	37	4	30	13
Real estate — residential mortgage	508	37	31	484	31	31
Home equity loans	1,305	77	61	1,276	75	59
Consumer direct loans	81	4	2	48	3	2
Credit cards	522	3	2	430	1	1
Consumer indirect loans	512	34	22	320	31	22
Total consumer loans	2,928	155	118	2,558	141	115
Total prior-year accruing TDRs	2,946	208	155	2,562	171	128
Total TDRs	5,831	\$ 452	\$ 366	5,184	\$ 398	\$ 317

^(a) All TDRs that were restructured prior to January 1, 2018, and January 1, 2017, and are fully accruing.

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 three months ended September 30, 2018, there were no commercial loan TDRs and 82 consumer loan TDRs with a combined recorded investment of \$2 million that experienced payment defaults after modifications resulting in TDR status during 2017. During the three months ended September 30, 2017, there were no commercial loan TDRs and 45 consumer loan TDRs with a combined recorded investment of \$1 million that experienced payment defaults after modifications resulting in TDR status during 2016.

During the nine months ended September 30, 2018, there were no commercial loan TDRs and 178 consumer loan TDRs with a combined recorded investment of \$4 million that experienced payment defaults after modifications resulting in TDR status during 2017. During the nine months ended September 30, 2017, there were no commercial loan TDRs and 100 consumer loan TDRs with a combined recorded investment of \$3 million that experienced payment defaults after modifications resulting in TDR status during 2016.

ALLL and Liability for Credit Losses on Unfunded Lending-Related Commitments

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” beginning on page 102 of our 2017 Form 10-K.

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. There was less than \$1 million of provision for loan and lease losses on PCI loans during the nine months ended September 30, 2018, and a credit of \$1 million during the three months ended September 30, 2018. There was \$4 million of provision for loan and lease losses on PCI loans during the nine months ended September 30, 2017, and less than \$1 million of provision for loan and lease losses on PCI loans during the three months ended September 30, 2017. There was \$3 million of provision for loan and lease losses on PCI loans during the twelve months ended December 31, 2017.

Table of contents

The ALLL at September 30, 2018, represents our best estimate of the incurred credit losses inherent in the loan portfolio at that date. The changes in the ALLL by loan category for the periods indicated are as follows:

Three months ended September 30, 2018:

<i>in millions</i>	June 30, 2018	Provision	Charge-offs	Recoveries	September 30, 2018
Commercial and Industrial	\$ 542	\$ 34	\$ (38)	\$ 5	\$ 543
Commercial real estate:					
Real estate — commercial mortgage	139	9	(6)	1	143
Real estate — construction	28	3	—	—	31
Total commercial real estate loans	167	12	(6)	1	174
Commercial lease financing	40	(2)	(4)	3	37
Total commercial loans	749	44	(48)	9	754
Real estate — residential mortgage	10	(1)	(2)	2	9
Home equity loans	37	(2)	(4)	3	34
Consumer direct loans	26	9	(10)	1	26
Credit cards	46	7	(10)	2	45
Consumer indirect loans	19	3	(7)	4	19
Total consumer loans	138	16	(33)	12	133
Total ALLL — continuing operations	887	60	(a) (81)	21	887
Discontinued operations	14	3	(4)	1	14
Total ALLL — including discontinued operations	\$ 901	\$ 63	\$ (85)	\$ 22	\$ 901

(a) Excludes a provision for losses on lending-related commitments of \$2 million.

Three months ended September 30, 2017:

<i>in millions</i>	June 30, 2017	Provision	Charge-offs	Recoveries	September 30, 2017
Commercial and Industrial	\$ 528	\$ 8	\$ (29)	\$ 25	\$ 532
Commercial real estate:					
Real estate — commercial mortgage	144	(1)	(6)	1	138
Real estate — construction	28	3	(2)	—	29
Total commercial real estate loans	172	2	(8)	1	167
Commercial lease financing	40	1	(1)	3	43
Total commercial loans	740	11	(38)	29	742
Real estate — residential mortgage	9	(2)	—	1	8
Home equity loans	42	(1)	(6)	4	39
Consumer direct loans	25	10	(8)	1	28
Credit cards	44	10	(11)	1	44
Consumer indirect loans	10	14	(8)	3	19
Total consumer loans	130	31	(33)	10	138
Total ALLL — continuing operations	870	42	(a) (71)	39	880
Discontinued operations	21	5	(10)	2	18
Total ALLL — including discontinued operations	\$ 891	\$ 47	\$ (81)	\$ 41	\$ 898

(a) Excludes a provision for losses on lending-related commitments of \$9 million.

Table of contents**Nine months ended September 30, 2018:**

<i>in millions</i>	December 31, 2017	Provision	Charge-offs	Recoveries	September 30, 2018
Commercial and Industrial	529	\$ 110	\$ (114)	\$ 18	\$ 543
Commercial real estate:					
Real estate — commercial mortgage	133	17	(9)	2	143
Real estate — construction	30	—	—	1	31
Total commercial real estate loans	163	17	(9)	3	174
Commercial lease financing	43	(1)	(9)	4	37
Total commercial loans	735	126	(132)	25	754
Real estate — residential mortgage	7	3	(3)	2	9
Home equity loans	43	(4)	(14)	9	34
Consumer direct loans	28	20	(27)	5	26
Credit cards	44	30	(34)	5	45
Consumer indirect loans	20	9	(22)	12	19
Total consumer loans	142	58	(100)	33	133
Total ALLL — continuing operations	877	184	(a) (232)	58	887
Discontinued operations	16	5	(11)	4	14
Total ALLL — including discontinued operations	\$ 893	\$ 189	\$ (243)	\$ 62	\$ 901

(a) Excludes a provision for losses on lending-related commitments of \$3 million.

Nine months ended September 30, 2017:

<i>in millions</i>	December 31, 2016	Provision	Charge-offs	Recoveries	September 30, 2017
Commercial and Industrial	\$ 508	\$ 93	\$ (101)	\$ 32	\$ 532
Commercial real estate:					
Real estate — commercial mortgage	144	2	(9)	1	138
Real estate — construction	22	8	(2)	1	29
Total commercial real estate loans	166	10	(11)	2	167
Commercial lease financing	42	5	(9)	5	43
Total commercial loans	716	108	(121)	39	742
Real estate — residential mortgage	17	(11)	(2)	4	8
Home equity loans	54	(4)	(23)	12	39
Consumer direct loans	24	26	(26)	4	28
Credit cards	38	36	(34)	4	44
Consumer indirect loans	9	23	(24)	11	19
Total consumer loans	142	70	(109)	35	138
Total ALLL — continuing operations	858	178	(a) (230)	74	880
Discontinued operations	24	8	(20)	6	18
Total ALLL — including discontinued operations	\$ 882	\$ 186	\$ (250)	\$ 80	\$ 898

(a) Excludes a provision for losses on lending-related commitments of \$2 million.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of September 30, 2018, follows:

September 30, 2018	Allowance			Outstanding			
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired	Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
<i>in millions</i>							

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Commercial and industrial	\$ 5	\$ 536	\$ 2	\$ 45,023	\$ 232	\$ 44,737	\$ 54
Commercial real estate:							
Commercial mortgage	11	129	3	14,716	76	14,436	204
Construction	—	31	—	1,763	—	1,760	3
Total commercial real estate loans	11	160	3	16,479	76	16,196	207
Commercial lease financing	—	37	—	4,470	—	4,470	—
Total commercial loans	16	733	5	65,972	308	65,403	261
Real estate — residential mortgage	4	5	—	5,497	49	5,125	323
Home equity loans	7	26	1	11,339	127	11,193	19
Consumer direct loans	—	26	—	1,807	4	1,800	3
Credit cards	—	45	—	1,098	3	1,095	—
Consumer indirect loans	3	16	—	3,555	35	3,520	—
Total consumer loans	14	118	1	23,296	218	22,733	345
Total ALLL — continuing operations	30	851	6	89,268	526	88,136	606
Discontinued operations	2	12	—	1,130	(a) 22	1,108	(a) —
Total ALLL — including discontinued operations	\$ 32	\$ 863	\$ 6	\$ 90,398	\$ 548	\$ 89,244	\$ 606

(a) Amount includes \$2 million of loans carried at fair value that are excluded from ALLL consideration.

Table of contents

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2017, follows:

December 31, 2017 <i>in millions</i>	Allowance			Outstanding Loans	Allowance		Purchased Credit Impaired
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	
Commercial and Industrial	\$ 6	\$ 520	\$ 3	\$ 41,859	\$ 136	\$ 41,640	\$ 83
Commercial real estate:							
Commercial mortgage	—	131	2	14,088	12	13,828	248
Construction	—	30	—	1,960	—	1,934	26
Total commercial real estate loans	—	161	2	16,048	12	15,762	274
Commercial lease financing	—	43	—	4,826	—	4,826	—
Total commercial loans	6	724	5	62,733	148	62,228	357
Real estate — residential mortgage	5	2	—	5,483	49	5,079	355
Home equity loans	9	33	1	12,028	117	11,889	22
Consumer direct loans	—	28	—	1,794	4	1,786	4
Credit cards	—	44	—	1,106	2	1,104	—
Consumer indirect loans	3	17	—	3,261	34	3,227	—
Total consumer loans	17	124	1	23,672	206	23,085	381
Total ALLL — continuing operations	23	848	6	86,405	354	85,313	738
Discontinued operations	3	13	—	1,314 (a)	21	1,293	(a) —
Total ALLL — including discontinued operations	\$ 26	\$ 861	\$ 6	\$ 87,719	\$ 375	\$ 86,606	\$ 738

(a) Amount includes \$2 million of loans carried at fair value that are excluded from ALLL consideration.

The liability for credit losses inherent in unfunded lending-related 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.

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

<i>in millions</i>	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Balance at beginning of period	\$ 58	\$ 48	\$ 57	\$ 55
Provision (credit) for losses on lending-related commitments	2	9	3	2
Balance at end of period	\$ 60	\$ 57	\$ 60	\$ 57

PCI Loans

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. Our policies for determining, recording payments on, and derecognizing PCI loans are disclosed in Note 1 (“Summary of Significant Accounting Policies”) under the heading “Purchased Loans” beginning on page 107 of our 2017 Form 10-K.

We have PCI loans from two separate acquisitions, one in 2012 and one in 2016. The following tables present the roll-forward of the accretable yield and the beginning and ending outstanding unpaid principal balance and carrying amount of all PCI loans for the three and nine months ended September 30, 2018, and the twelve months ended December 31, 2017.

<i>in millions</i>	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	Accretable Yield	Carrying Amount	Outstanding Unpaid Principal Balance	Accretable Yield	Carrying Amount	Outstanding Unpaid Principal Balance
Balance at beginning of period	\$ 121	\$ 622	\$ 669	\$ 131	\$ 738	\$ 803
Accretion	(10)			(33)		
Net reclassifications from nonaccretable to accretable	13			41		
Payments received, net	(3)			(18)		
Balance at end of period	\$ 121	\$ 599	\$ 642	\$ 121	\$ 599	\$ 642

Table of contents

<i>in millions</i>	Twelve Months Ended December 31, 2017		
	Accretible Yield	Outstanding Amount	Unpaid Principal Balance
Balance at beginning of period	\$ 197	\$ 865	\$ 1,002
Additions	(32)		
Accretion	(44)		
Net reclassifications from nonaccretable to accretable	15		
Payments received, net	(4)		
Disposals	(1)		
Balance at end of period	\$ 131	\$ 738	\$ 803

5. Fair Value Measurements**Fair Value Determination**

In accordance with GAAP, Key measures certain assets and liabilities at fair value. Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants in our principal market.

Additional information regarding our accounting policies for determining fair value is provided in Note 7 ("Fair Value Measurements") and Note 4 ("Summary of Significant Accounting Policies") under the heading "Fair Value Measurements" of our 2017 Form 10-K.

Table of contents**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at September 30, 2018, and December 31, 2017.

	September 30, 2018				December 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<i>in millions</i>								
ASSETS MEASURED ON A RECURRING BASIS								
Trading account assets:								
U.S. Treasury, agencies and corporations	—	\$759	—	\$759	—	615	—	615
States and political subdivisions	—	54	—	54	—	37	—	37
Other mortgage-backed securities	—	86	—	86	—	104	—	104
Other securities	3	39	—	42	—	65	—	65
Total trading account securities	3	938	—	941	—	821	—	821
Commercial loans	—	17	—	17	—	15	—	15
Total trading account assets	3	955	—	958	—	836	—	836
Securities available for sale:								
U.S. Treasury, agencies and corporations	—	145	—	145	—	157	—	157
States and political subdivisions	—	7	—	7	—	9	—	9
Agency residential collateralized mortgage obligations	—	14,192	—	14,192	—	14,660	—	14,660
Agency residential mortgage-backed securities	—	1,661	—	1,661	—	1,439	—	1,439
Agency commercial mortgage-backed securities	—	2,316	—	2,316	—	1,854	—	1,854
Other securities	—	—	\$ 20	20	—	—	20	20
Total securities available for sale	—	18,321	20	18,341	—	18,119	20	18,139
Other investments:								
Principal investments:								
Direct	—	—	12	12	—	—	13	13
Indirect (measured at NAV) ^(a)	—	—	—	101	—	—	—	124
Total principal investments	—	—	12	113	—	—	13	137
Equity investments:								
Direct	—	1	7	8	—	4	3	7
Direct (measured at NAV) ^(a)	—	—	—	1	—	—	—	—
Total equity investments	—	1	7	9	—	4	3	7
Total other investments	—	1	19	122	—	4	16	144
Loans, net of unearned income	—	—	3	3	—	—	2	2
Loans held for sale	—	87	—	87	—	70	1	71
Derivative assets:								
Interest rate	—	304	6	310	—	713	9	722
Foreign exchange	\$70	32	—	102	\$100	\$30	\$ —	\$130
Commodity	—	491	—	491	—	255	—	255
Credit	—	—	—	—	—	—	1	1
Other	—	5	2	7	—	1	3	4
Derivative assets	70	832	8	910	100	999	13	1,112
Netting adjustments ^(b)	—	—	—	(162)	—	—	—	(443)
Total derivative assets	70	832	8	748	100	999	13	669
Accrued income and other assets	—	—	—	—	—	—	—	—
Total assets on a recurring basis at fair value	\$73	\$20,196	\$ 50	\$20,259	\$100	\$20,028	\$ 52	\$19,861
LIABILITIES MEASURED ON A RECURRING BASIS								
Bank notes and other short-term borrowings:								

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Short positions	\$37	\$600	—	\$637	\$72	\$562	\$	—	\$634
Derivative liabilities:									
Interest rate	—	445	—	445	—	520	—	—	520
Foreign exchange	62	31	—	93	98	26	—	—	124
Commodity	—	481	—	481	—	246	—	—	246
Credit	—	3	—	3	—	4	—	—	4
Other	—	3	—	3	—	13	—	—	13
Derivative liabilities	62	963	—	1,025	98	809	—	—	907
Netting adjustments ^(b)	—	—	—	(582)	)—	—	—	—	(616)
Total derivative liabilities	62	963	—	443	98	809	—	—	291
Accrued expense and other liabilities	—	—	—	—	—	—	—	—	—
Total liabilities on a recurring basis at fair value	\$99	\$1,563	—	\$1,080	\$170	\$1,371	\$	—	\$925

(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 amounts presented in the consolidated balance sheet.

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. The (b) net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Total derivative assets and liabilities include these netting adjustments.

Table of contents

Qualitative Disclosures of Valuation Techniques

The following describes the valuation techniques and significant inputs for Level 2 and Level 3 assets and liabilities:

Securities (trading account assets and available for sale). We own several types of securities, requiring a range of valuation methods:

Level 2 securities include municipal bonds, bonds backed by the U.S. government, corporate bonds, agency residential and CMBS, securities issued by the U.S. Treasury, money markets, and certain agency and corporate CMOs. Fair value is determined using pricing models (either by a third-party pricing service or internally) or quoted prices of similar securities.

Our Level 3 instruments consist principally of debt securities. The securities are valued using a cash flow analysis of the associated private company issuers based on internal models or a third-party valuation service. We also employ a market approach that utilizes revenue multiples of comparable companies. We reference guideline public companies with growth prospects, margin, and risks that are comparable to the subject companies. The valuations of the securities are negatively affected by projected net losses of the associated private companies and positively affected by projected net gains.

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. We validate the pricing methodologies utilized by our third-party pricing service to ensure that the fair value determination is consistent with the applicable accounting guidance. This includes comparing the actual inputs used by our third-party pricing service to comparable inputs for similar securities and comparing the fair values to prices from other independent sources for the same and similar securities.

Commercial loans (trading account assets). Commercial loans recorded as trading account assets are valued based on market spreads since there is an active market for similar assets. Bid and ask prices are received from multiple loan dealers and valuations reflect prices within the bid-ask spread that are most representative of fair value for the respective loans. The price point used within the bid/ask spread is further validated using an independent, third party service provider.

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). In most cases, quoted market prices are not available for our direct investments, and we must estimate the fair value based on operating performance, market multiples for comparable businesses, and unique facts and circumstances related to each individual investment. Indirect investments are valued using a methodology that is consistent with accounting guidance allowing us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed).

The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at September 30, 2018, as well as financial support provided for the three and nine months ended September 30, 2018, and September 30, 2017.

Table of contents

	Financial support provided								
	September 30, 2018		Three months ended September 30,			Nine months ended September 30,			
	Fair Value	Unfunded Commitments	2018	2017	Other	2018	2017	2018	2017
<i>in millions</i>			Funded Commitments	Funded Commitments	Funded Commitments	Funded Commitments	Funded Commitments	Funded Commitments	Funded Commitments
INVESTMENT TYPE									
Direct investments (a)	\$ 12	—	—	—	—	—	—	—	\$ —
Indirect investments (measured at NAV)	101	\$ 28	—	\$ —	—	\$ 1	—	\$ 1	—
Total	\$ 113	\$ 28	—	\$ —	—	\$ 1	—	\$ 1	\$ —

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 (a) 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.

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

(b) underlying investments of the funds will be liquidated over a period of one to six years. The purpose of funding our capital commitments to these investments is to allow the funds to make additional follow-on investments and pay fund expenses until the fund dissolves. We, and all other investors in the fund, are obligated to fund the full amount of our respective capital commitments to the fund based on our and their respective ownership percentages, as noted in the applicable Limited Partnership Agreement.

Other Equity Investments. Our other equity investments measured on a recurring basis are direct investments in equity instruments of private companies. Quoted market prices are not available for these investments and we must perform valuations using other methods in a similar manner to our direct principal investments.

Loans Held for Sale and Held for Investment. 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. We have elected the fair value option for residential mortgage loans held for sale as this aligns with the related forward mortgage loan sale commitments.

Our residential mortgage activity also includes temporarily unsalable residential mortgage loans that are included in "Loans, net of unearned income" and loans with salability issues included in "Loans held for sale" on the balance sheet. These loans have an origination defect that makes them temporarily 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. The majority of our derivative positions are Level 2 instruments, which are valued using internally developed models, based on market convention. These models use observable market inputs, such as interest rate curves, LIBOR and Overnight Index Swap discount rates and curves, index pricing curves, foreign currency curves, volatility surfaces (a three-dimensional graph of implied volatility against strike price and maturity) and current prices for mortgage securities and investor supplied prices.

Level 3 derivative instruments primarily consist of interest rate lock commitments and several customized derivative instruments. The value of interest rate lock commitments is based on interest rates observable in the market and the probability of the loan closing. Therefore, the valuation methodology employs a model which uses current interest rates and adjusts the probability of the loan closing at the approved terms in the current interest rate environment. Various other customized derivative instruments are priced using internally developed models which leverage market and internal data and assumptions.

Liability for short positions. Level 2 items are fixed income securities held by our broker dealer in its trading inventory. These items are measured at fair value based upon market activity, spreads, credit ratings and interest rates for each security type. Additionally, recent values used in transactions for the same or similar securities are also utilized in the valuation.

Changes in Level 3 Fair Value Measurements

The following table shows the components of the change in the fair values of our Level 3 financial instruments for the three and nine months ended September 30, 2018, and September 30, 2017.

73

Table of contents

<i>in millions</i>	Beginning Balance	Gains (Losses) Included in Other Comprehensive Income	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers Other	Transfers into Level 3 (a)	Transfers out of Level 3 (a)	End of Period Balance	Unrealized Gains (Losses) Included in Earnings
Nine months ended September 30, 2018											
Securities available for sale											
Other securities	\$ 20	\$ —	—	—	—	—	—	—	—	\$ 20	—
Other investments											
Principal investments											
Direct	13	—	\$ (1) (b)	1	(1)	—	—	—	—	12	\$ 1 (b)
Equity investments											
Direct	3	—	—	—	—	—	—	\$ 4	—	7	—
Loans held for sale	1	—	—	—	(1)	—	—	—	—	—	—
Loans held for investment	2	—	—	—	—	—	1	—	—	3	—
Derivative instruments ^(c)											
Interest rate	9	—	(2) (d)	1	(2)	—	—	6 (e)	\$(6) (e)	6	—
Credit	1	—	(26) (d)	—	—	\$ 25	—	—	—	—	—
Other ^(f)	3	—	—	—	—	—	(1)	—	—	2	—
Three months ended September 30, 2018											
Securities available for sale											
Other securities	\$ 20	\$ —	—	—	—	—	—	—	\$ —	\$ 20	—
Other investments											
Principal investments											
Direct	13	—	\$ (1) (b)	—	—	—	—	—	—	12	(1) (b)
Equity investments											
Direct	7	—	—	—	—	—	—	—	—	7	—
Loans held for sale	—	—	—	—	—	—	—	—	—	—	—
Loans held for investment	3	—	—	—	—	—	—	—	—	3	—
Derivative instruments ^(c)											
Interest rate	5	—	— (d)	—	—	—	—	2 (e)	(1) (e)	6	—
Credit	(9)	—	(6) (d)	—	—	\$ 15	—	—	—	—	—
Other ^(f)	3	—	—	—	—	—	(1)	—	—	2	—
<i>in millions</i>											
Nine months ended September 30, 2017											
Securities available for sale											
Other securities	\$ 17	\$ 3	—	—	—	—	—	—	—	\$ 20	—
Other investments											
Principal investments											
Direct	27	\$ —	\$ (7) (b)	—	(7)	—	—	—	—	13	\$ (1) (b)
Loans held for sale	—	—	—	—	(1)	—	3	—	—	2	—
Derivative instruments ^(c)											
Interest rate	7	—	—	—	—	—	—	\$ 13 (e)	\$(9) (e)	11	—
Credit	1	—	(12) (d)	—	—	\$ 12	—	—	—	1	—
Other ^(f)	2	—	—	—	—	—	\$ 2	—	—	4	—
Three months ended September 30, 2017											
Securities available for sale											
Other securities	\$ 20	\$ 1	—	—	—	—	—	—	\$(1)	\$ 20	—
Other investments											

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Principal investments										
Direct	15	\$	—	\$ (2) (b)	—	\$—	—	—	13	\$ 2 (b)
Loans held for sale	—	—	—	—	(1)	—	3	—	2	—
Derivative instruments (c)										
Interest rate	16	—	—	—	—	—	—	\$ 1 (e)	\$ (6) (e)	11
Credit	1	—	(5) (d)	—	—	\$ 5	—	—	1	—
Other (f)	4	—	—	\$	—	—	\$	—	4	—

(a) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.

(b) Realized and unrealized gains and losses on principal investments are reported in "other income" on the income statement.

(c) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.

(d) Realized and unrealized gains and losses on derivative instruments are reported in "corporate services income" and "other income" on the income statement.

(e) 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.

(f) Amounts represent Level 3 interest rate lock commitments.

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 September 30, 2018, and December 31, 2017.

The following table presents our assets measured at fair value on a nonrecurring basis at September 30, 2018, and December 31, 2017:

Table of contents

<i>in millions</i>	September 30, 2018			December 31, 2017		
	Level 2	Level 3	Total	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS						
Impaired loans and leases	\$-	\$ 97	\$ 97	—	\$ 9	\$ 9
Accrued income and other assets	—	24	24	\$ 5	133	(a) 138
Total assets on a nonrecurring basis at fair value	\$-	\$ 121	\$ 121	\$ 5	\$ 142	\$ 147

(a) At December 31, 2017, we recorded \$31 million of impairment related to \$119 million of LIHTC and Historic Tax Credit investments impacted by the enactment of the TCJ Act. Refer to the "LIHTC and Historic Tax Credit Investments" section below for a description of the valuation technique and inputs applied for this fair value measurement.

Impaired loans and leases. The following two internal methods are used to value impaired loans and leases:

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 underlying 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.

Reviews are done on a quarterly basis for non-accrual and TDRs greater than \$2.5 million to determine the amount of specific allocations for impairment needed. 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. For loans sold in an active market, we utilize non-binding bids for the respective loans or similar loans, or recent sales to determine the fair value. For inactive markets, we assess appraisal values, strength of sponsor/guarantor, loan pricing relative to current comparable transactions, current market conditions and market demographics. Our analysis concluded that there were no commercial loans held for sale adjusted to fair value at September 30, 2018, and December 31, 2017.

Direct financing leases and operating lease assets held for sale. 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 on 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. Leases for which we receive a current nonbinding bid, and for which the sale is considered probable, may be classified as Level 2. No direct financing leases and operating lease assets held for sale were adjusted to fair value at September 30, 2018, and December 31, 2017.

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.

LIHTC, HTC, and NMTC Investments. Valuation of LIHTC, HTC, and NMTC investments involves measuring the present value of future tax benefits and comparing that value against the current carrying

value of the investments. LIHTC, HTC, and NMTC investments are impaired when it is more likely than not that the carrying amount of the investments will not be realized. A primary driver of impairment in the fourth quarter of 2017 was the enactment of the TCJ Act, which reduced future depreciation tax benefits expected to be realized by certain LIHTC, HTC, and NMTC investments. No impairment was recorded for the three and nine months ended September 30, 2018.

Other Equity Investments. We have other investments in equity securities that do not have readily determinable fair values and do not qualify for the practical expedient to measure the investment using a net asset value per share. We have elected to measure these securities at cost less impairment plus or minus adjustments due to observable orderly transactions. Impairment is recorded when there is evidence that the expected fair value of the investment has declined to below the recorded cost. At each reporting period, we assess if these investments continue to qualify for this measurement alternative. At September 30, 2018, the carrying amount of equity investments recorded under this method was \$106 million. No impairment was recorded for the three and nine months ended September 30, 2018.

Table of contents**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 September 30, 2018, and December 31, 2017, along with the valuation techniques used, are shown in the following table:

September 30, 2018 <i>dollars in millions</i>	Fair Value of Level 3 Assets	Valuation Technique	Significant Unobservable Input (Weighted-Average)	Range (Weighted-Average)
Recurring				
Other investments — principal investments — direct:	\$ 12	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	N/A (6.88)
Equity instruments of private companies			EBITDA multiple	N/A (6.88)
Nonrecurring				
Impaired loans	97	Fair value of underlying collateral	Discount	0.00 - 75.00% (20.00%)
December 31, 2017				
<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:	\$ 13	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	N/A (6.00)
Equity instruments of private companies			EBITDA multiple	N/A (6.00)
Nonrecurring				
Impaired loans	9	Fair value of underlying collateral	Discount	0.00 - 50.00% (23.00%)

Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at September 30, 2018, and December 31, 2017, are shown in the following tables. Assets and liabilities are further arranged by measurement category.

<i>in millions</i>	September 30, 2018					Total
	Carrying Amount	Level 2	Level 3	Measured at NAV	Netting Adjustment	
ASSETS (by measurement category)						
Fair value - net income						
Trading account assets ^(b)	\$ 958	3	\$ 955	—	—	\$ 958
Other investments ^(b)	681	—	1	\$ 578	\$ 102	681
Loans, net of unearned income ^(d)	3	—	—	3	—	3
Loans held for sale ^(b)	87	—	87	—	—	87
Derivative assets - trading ^(b)	700	\$ 68	794	8	\$ (170)	(f) 700
Fair value - OCI						
Securities available for sale ^(b)	18,341	—	18,321	\$ 20	—	18,341
Derivative assets - hedging ^(b)	48	2	38	—	8	(f) 48
Amortized cost						
Held-to-maturity securities ^(c)	11,869	—	11,261	—	—	11,261
Loans, net of unearned income ^(d)	88,378	—	—	86,418	—	86,418
Loans held for sale ^(b)	1,531	—	—	1,531	—	1,531
Other						
Cash and short-term investments ^(a)	2,591	2,591	—	—	—	2,591
LIABILITIES (by measurement category)						

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Fair value - net income									
Derivative liabilities - trading ^(b)	\$ 446	\$ 61	\$ 967	—	—	\$ (582)) (f)	\$ 446	
Fair value - OCI									
Derivative liabilities - hedging ^(b)	(3) 1	(4) —	—	—	(f)	(3)
Amortized cost									
Time deposits ^(e)	13,583	—	13,654	—	—	—		13,654	
Short-term borrowings ^(a)	1,922	\$ 37	1,885	—	—	—		1,922	
Long-term debt ^(e)	13,849	12,65	9205	—	—	—		13,864	
Other									
Deposits with no stated maturity (a)	92,197	—	92,197	—	—	—		92,197	

Table of contents

in millions	December 31, 2017					Total	
	Carrying Amount	Level 1	Level 2	Level 3	Measured at NAV		Netting Adjustment
ASSETS (by measurement category)							
Fair value - net income							
Trading account assets ^(b)	\$ 836	—	\$ 836	—	—	—	\$ 836
Other investments ^(b)	726	—	4	\$ 598	\$ 124	—	726
Loans, net of unearned income ^(d)	2	—	—	2	—	—	2
Loans held for sale ^(b)	71	—	70	1	—	—	71
Derivative assets - trading ^(b)	681	\$ 99	918	13	—	\$ (349)	(f) 681
Fair value - OCI							
Securities available for sale ^(b)	18,139	—	18,119	20	—	—	18,139
Derivative assets - hedging ^(b)	(12)	(1)	81	—	—	(94)	(f) (12)
Amortized cost							
Held-to-maturity securities ^(c)	11,830	—	11,565	—	—	—	11,565
Loans, net of unearned income ^(d)	85,526	—	—	84,003	—	—	84,003
Loans held for sale ^(b)	1,036	—	—	1,036	—	—	1,036
Other							
Cash and short-term investments ^(a)	5,118	5,118	—	—	—	—	5,118
LIABILITIES (by measurement category)							
Fair value - net income							
Derivative liabilities - trading ^(b)	\$ 289	\$ 94	\$ 763	—	—	\$ (568)	(f) \$ 289
Fair value - OCI							
Derivative liabilities - hedging ^(b)	2	4	46	—	—	(48)	(f) 2
Amortized cost							
Time deposits ^(e)	11,647	—	11,750	—	—	—	11,750
Short-term borrowings ^(a)	1,011	72	939	—	—	—	1,011
Long-term debt ^(e)	14,333	13,407	1,219	—	—	—	14,626
Other							
Deposits with no stated maturity ^(a)	93,588	—	93,588	—	—	—	93,588

Valuation Methods and Assumptions

(a) Fair value equals or approximates carrying amount. The fair value of deposits with no stated maturity does not take into consideration the value ascribed to core deposit intangibles.

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 and Liabilities Measured at Fair Value on a Nonrecurring Basis" in this Note. Investments accounted for under the cost method (or cost less impairment adjusted for observable price

(b) changes for certain equity investments) are classified as Level 3 assets. These investments are not actively traded in an open market as sales for these types of investments are rare. The carrying amount of the investments carried at cost are adjusted for declines in value if they are considered to be other-than-temporary (or due to observable orderly transactions of the same issuer for equity investments eligible for the cost less impairment measurement alternative). These adjustments are included in "other income" on the income statement.

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 (c) 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 that 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 (d) 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.

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. The (f) 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.

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 \$1.1 billion (\$1.0 billion at fair value) at September 30, 2018, and \$1.3 billion (\$1.0 billion at fair value) at December 31, 2017;

Portfolio loans at fair value of \$2 million at September 30, 2018, and \$2 million at December 31, 2017.

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.

6. Securities

The amortized cost, unrealized gains and losses, and approximate fair value of our securities available for sale and held-to-maturity securities are presented in the following tables. 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.

Table of contents

<i>in millions</i>	September 30, 2018				December 31, 2017			
	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	\$ 150	—	\$ 5	\$ 145	\$ 159	—	\$ 2	\$ 157
States and political subdivisions	7	—	—	7	9	—	—	9
Agency residential collateralized mortgage obligations	14,804	\$ 4	616	14,192	14,985	\$ 10	335	14,660
Agency residential mortgage-backed securities	1,708	2	49	1,661	1,456	3	20	1,439
Agency commercial mortgage-backed securities	2,439	—	123	2,316	1,920	—	66	1,854
Other securities	17	3	—	20	17	3	—	20
Total securities available for sale	\$ 19,125	\$ 9	\$ 793	\$ 18,341	\$ 18,546	\$ 16	\$ 423	\$ 18,139
HELD-TO-MATURITY SECURITIES								
Agency residential collateralized mortgage obligations	\$ 7,330	—	\$ 400	\$ 6,930	\$ 8,055	—	\$ 224	\$ 7,831
Agency residential mortgage-backed securities	508	—	22	486	574	\$ 1	4	571
Agency commercial mortgage-backed securities	4,019	—	186	3,833	3,186	6	44	3,148
Other securities	12	—	—	12	15	—	—	15
Total held-to-maturity securities	\$ 11,869	\$ —	\$ 608	\$ 11,261	\$ 11,830	\$ 7	\$ 272	\$ 11,565

The following table summarizes our securities that were in an unrealized loss position as of September 30, 2018, and December 31, 2017.

<i>in millions</i>	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
September 30, 2018						
Securities available for sale:						
U.S Treasury, agencies, and corporations	—	—	\$ 145	\$ 5	\$ 145	\$ 5
Agency residential collateralized mortgage obligations	\$ 3,121	54	10,062	562	13,183	616
Agency residential mortgage-backed securities	409	3	1,089	46	1,498	49
Agency commercial mortgage-backed securities	558	2	1,758	121	2,316	123
Held-to-maturity securities:						
Agency residential collateralized mortgage obligations	1,275	44	5,655	356	6,930	400
Agency residential mortgage-backed securities	153	6	333	16	486	22
Agency commercial mortgage-backed securities	2,629	98	1,205	88	3,834	186
Other securities ^(a)	2	—	—	—	2	—
Total temporarily impaired securities	\$ 8,147	\$ 207	\$ 20,247	\$ 1,194	\$ 28,394	\$ 1,401
December 31, 2017						
Securities available for sale:						
U.S. Treasury, agencies, and corporations	\$ 41	—	\$ 116	2	\$ 157	\$ 2
Agency residential collateralized mortgage obligations	6,153	\$ 74	7,270	\$ 261	13,423	335
Agency residential mortgage-backed securities	666	7	702	13	1,368	20
Agency commercial mortgage-backed securities	205	4	1,649	62	1,854	66
Held-to-maturity securities:						
Agency residential collateralized mortgage obligations	2,201	27	5,599	197	7,800	224
Agency residential mortgage-backed securities	252	1	206	3	458	4
Agency commercial mortgage-backed securities	1,470	12	495	32	1,965	44
Other securities ^(a)	3	—	4	—	7	—

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Total temporarily impaired securities	\$ 10,991\$ 125	\$ 16,041\$ 570	\$ 27,032\$ 695
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(a) Gross unrealized losses totaled less than \$1 million for other securities held-to maturity at September 30, 2018, and December 31, 2017.

At September 30, 2018, we had \$616 million of gross unrealized losses related to 482 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 4.69 years at September 30, 2018. At September 30, 2018, we also had \$49 million of gross unrealized losses related to 262 agency residential mortgage-backed securities positions and \$123 million of gross unrealized losses related to 20 agency commercial mortgage backed securities positions with weighted-average maturities of 4.30 years and 4.15 years, respectively. 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 through 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

78

Table of contents

the individual securities, and the likelihood that we will have to sell securities prior to expected recovery. As shown in the following table, we did not have any impairment losses recognized in earnings for the nine months ended September 30, 2018.

Nine months ended September 30, 2018*in millions*

Balance at December 31, 2017	\$4
Impairment recognized in earnings	—
Balance at September 30, 2018	\$4

At September 30, 2018, securities available for sale and held-to-maturity securities totaling \$8.4 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 our securities by remaining maturity. CMOs and other mortgage-backed securities in the available for sale portfolio and held-to-maturity portfolio are presented based on their expected average lives. The remaining securities, in both the available-for-sale and held-to-maturity portfolios, are presented based on their remaining co