KEYCORP /NEW/
Form 10-Q
August 05, 2013

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

June 30, 2013

Commission File Number 1-11302

Exact name of registrant as specified in its charter:

Ohio	**34-6542451**
State or other jurisdiction of incorporation or organization	**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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 post such files).

Yes þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

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

Common Shares with a par value of $1 each	911,352,637 Shares
Title of class	**Outstanding at August 1, 2013**

Table of Contents

KEYCORP

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Table of Contents

Table of Contents

PART II. OTHER INFORMATION

Throughout the Notes to Consolidated Financial Statements (Unaudited) and Management s Discussion & Analysis of Financial Condition & Results of Operations, we use certain acronyms and abbreviations as defined in Note 1 (Basis of Presentation), that begins on page 10.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	**June 30, 2013 (Unaudited)**	**December 31, 2012**	**June 30, 2012 (Unaudited)**
ASSETS			
Cash and due from banks	**$ 696**	$ 584	$ 716
Short-term investments	**3,582**	3,940	2,216
Trading account assets	**592**	605	679
Securities available for sale	**13,253**	12,094	13,205
Held-to-maturity securities (fair value: $4,716, $3,992 and $4,396)	**4,750**	3,931	4,352
Other investments	**1,037**	1,064	1,186
Loans, net of unearned income of $901, $957 and $1,155	**53,101**	52,822	49,605
Less: Allowance for loan and lease losses	**876**	888	888
Net loans	**52,225**	51,934	48,717
Loans held for sale	**402**	599	656
Premises and equipment	**900**	965	931
Operating lease assets	**303**	288	318
Goodwill	**979**	979	917
Other intangible assets	**149**	171	15
Corporate-owned life insurance	**3,362**	3,333	3,285
Derivative assets	**461**	693	818
Accrued income and other assets (including $22 of consolidated LIHTC guaranteed funds VIEs, see Note 9)[a]	**2,864**	2,774	2,967
Discontinued assets (including $2,341 of consolidated education loan securitization trust VIEs (see Note 9) and $151 of loans in portfolio at fair value)[a]	**5,084**	5,282	5,545
Total assets	**$ 90,639**	$ 89,236	$ 86,523
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 32,689**	$ 32,380	$ 28,957
Savings deposits	**2,542**	2,433	2,103
Certificates of deposit ($100,000 or more)	**2,918**	2,879	3,669

Other time deposits	**4,089**	4,575	5,385
Total interest-bearing	**42,238**	42,267	40,114
Noninterest-bearing	**24,939**	23,319	21,435
Deposits in foreign office interest-bearing	**544**	407	618
Total deposits	**67,721**	65,993	62,167
Federal funds purchased and securities sold under repurchase agreements	**1,647**	1,609	1,716
Bank notes and other short-term borrowings	**298**	287	362
Derivative liabilities	**456**	584	763
Accrued expense and other liabilities	**1,421**	1,387	1,390
Long-term debt	**6,666**	6,847	7,521
Discontinued liabilities (including $2,139 of consolidated education loan securitization trust VIEs at fair value, see Note 9)[a]	**2,169**	2,220	2,428
Total liabilities	**80,378**	78,927	76,347
EQUITY			
Preferred stock, $1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839, 2,904,839 and 2,904,839 shares	**291**	291	291
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905 and 1,016,969,905 shares	**1,017**	1,017	1,017
Capital surplus	**4,045**	4,126	4,120
Retained earnings	**7,214**	6,913	6,595
Treasury stock, at cost (104,086,859, 91,201,285 and 71,496,550)	**(2,020)**	(1,952)	(1,796)
Accumulated other comprehensive income (loss)	**(318)**	(124)	(72)
Key shareholders equity	**10,229**	10,271	10,155
Noncontrolling interests	**32**	38	21
Total equity	**10,261**	10,309	10,176
Total liabilities and equity	**$ 90,639**	$ 89,236	$ 86,523

(a) The assets of the VIEs can only be used by the particular VIE and there is no recourse to Key with respect to the liabilities of the consolidated LIHTC or education loan securitization trust VIEs.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Income (Unaudited)

dollars in millions, except per share amounts	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
INTEREST INCOME				
Loans	**$ 539**	$ 518	**$ 1,087**	$ 1,054
Loans held for sale	**5**	5	**9**	10
Securities available for sale	**80**	105	**160**	221
Held-to-maturity securities	**20**	17	**38**	29
Trading account assets	**4**	5	**10**	11
Short-term investments	**1**	2	**3**	3
Other investments	**8**	10	**17**	18
Total interest income	**657**	662	**1,324**	1,346
INTEREST EXPENSE				
Deposits	**42**	71	**87**	148
Federal funds purchased and securities sold under repurchase agreements		1	**1**	2
Bank notes and other short-term borrowings	**2**	2	**3**	4
Long-term debt	**32**	50	**69**	101
Total interest expense	**76**	124	**160**	255
NET INTEREST INCOME	**581**	538	**1,164**	1,091
Provision (credit) for loan and lease losses	**28**	21	**83**	63
Net interest income (expense) after provision for loan and lease losses	**553**	517	**1,081**	1,028
NONINTEREST INCOME				
Trust and investment services income	**100**	90	**195**	186
Investment banking and debt placement fees	**84**	73	**163**	134
Service charges on deposit accounts	**71**	70	**140**	138
Operating lease income and other leasing gains	**19**	58	**42**	110
Corporate services income	**43**	44	**88**	88
Cards and payments income	**42**	31	**79**	60
	31	30	**61**	60

Corporate-owned life insurance income								
Consumer mortgage income		**6**		9		**13**		18
Net gains (losses) from principal investing		**7**		24		**15**		59
Other income [(a)]		**26**		28		**58**		46
Total noninterest income		**429**		457		**854**		899
NONINTEREST EXPENSE								
Personnel		**406**		377		**797**		749
Net occupancy		**72**		62		**136**		126
Computer processing		**39**		43		**78**		84
Business services and professional fees		**37**		51		**72**		88
Equipment		**27**		27		**53**		53
Operating lease expense		**11**		15		**23**		32
Marketing		**11**		17		**17**		30
FDIC assessment		**8**		8		**16**		16
Intangible asset amortization on credit cards		**7**				**15**		
Other intangible asset amortization		**3**		1		**7**		2
Provision (credit) for losses on lending-related commitments		**5**		6		**8**		6
OREO expense, net		**1**		7		**4**		13
Other expense		**84**		79		**166**		173
Total noninterest expense		**711**		693		**1,392**		1,372
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**271**		281		**543**		555
Income taxes		**72**		54		**142**		127
INCOME (LOSS) FROM CONTINUING OPERATIONS		**199**		227		**401**		428
Income (loss) from discontinued operations, net of taxes of $4, $9, $8, and $8 (see Note 11)		**5**		14		**8**		13
NET INCOME (LOSS)		**204**		241		**409**		441
Less: Net income (loss) attributable to noncontrolling interests				5		**1**		5
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**204**	$	236	**$**	**408**	$	436
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**193**	$	217	**$**	**389**	$	412
		198		231		**397**		425

Net income (loss) attributable to Key common shareholders				
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .21**	$ .23	**$ .42**	$ .44
Income (loss) from discontinued operations, net of taxes	**.01**	.01	**.01**	.01
Net income (loss) attributable to Key common shareholders [(b)]	**.22**	.24	**.43**	.45
Per common share assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .21**	$ .23	**$ .42**	$ .43
Income (loss) from discontinued operations, net of taxes	**.01**	.01	**.01**	.01
Net income (loss) attributable to Key common shareholders [(b)]	**.22**	.24	**.43**	.45
Cash dividends declared per common share	**$ .055**	$ .05	**$ .105**	$ .08
Weighted-average common shares outstanding (000)	**913,736**	944,648	**917,008**	946,995
Weighted-average common shares and potential common shares outstanding (000) [(c)]	**918,628**	948,087	**922,319**	951,029

(a) For the three months ended June 30, 2013 and 2012, we did not have any impairment losses related to securities.

(b) EPS may not foot due to rounding.

(c) Assumes conversion of stock options and/or Preferred Series A, as applicable.
See Notes to Consolidated Financial Statements (Unaudited).

6

Table of Contents

Consolidated Statements of Comprehensive Income (Unaudited)

in millions	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net income (loss)	**$ 204**	$ 241	**$ 409**	$ 441
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($74), ($25), ($87) and ($31)	**(125)**	(42)	**(147)**	(53)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($18), ($2), ($23) and $5	**(31)**	(4)	**(39)**	8
Foreign currency translation adjustments, net of income taxes	**(3)**	(10)	**(14)**	(4)
Net pension and postretirement benefit costs, net of income taxes	**3**	3	**6**	5
Total other comprehensive income (loss), net of tax	**(156)**	(53)	**(194)**	(44)
Comprehensive income (loss)	**48**	188	**215**	397
Less: Comprehensive income attributable to noncontrolling interests		5	**1**	5
Comprehensive income (loss) attributable to Key	**$ 48**	$ 183	**$ 214**	$ 392

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Changes in Equity (Unaudited)

	Key Shareholders Equity								
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	No
	2,905	953,008	$ 291	$ 1,017	$ 4,194	$ 6,246	$ (1,815)	$ (28)	
						436			
f								(53)	
t s								8	
t s								(4)	
d								5	

				8			
					(76)		
					(11)		
	(10,468)					(82)	
	2,933			(82)		101	
2,905	945,473	$ 291	$ 1,017	$ 4,120	$ 6,595	$ (1,796)	$ (72)
2,905	925,769	$ 291	$ 1,017	$ 4,126	$ 6,913	$ (1,952)	$ (124)
					408		
							(147)
							(39)

t s								
t s								(14)
d								6
					8			
						(96)		
						(11)		
s		(17,576)					(177)	
s								
		4,690			(89)		109	
	2,905	912,883	$ 291	$ 1,017	$ 4,045	$ 7,214	$ (2,020)	$ (318)

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Cash Flows (Unaudited)

in millions	Six months ended June 30, 2013	2012
OPERATING ACTIVITIES		
Net income (loss)	**$ 409**	$ 441
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision (credit) for loan and lease losses	**83**	63
Provision (credit) for losses on lending-related commitments	**8**	6
Provision (credit) for losses on LIHTC guaranteed funds	**3**	
Depreciation, amortization and accretion expense, net	**93**	104
Stock-based compensation expense	**19**	27
FDIC (payments) net of FDIC expense	**297**	13
Deferred income taxes (benefit)	**36**	38
Proceeds from sales of loans held for sale	**2,613**	2,387
Originations of loans held for sale, net of repayments	**(2,316)**	(2,236)
Net losses (gains) on sales of loans held for sale	**(64)**	(54)
Net losses (gains) from principal investing	**(15)**	(59)
Net losses (gains) and writedown on OREO	**4**	12
Net losses (gains) on leased equipment	**(8)**	(63)
Net losses (gains) on sales of fixed assets	**8**	
Net decrease (increase) in trading account assets	**13**	(57)
Other operating activities, net	**(237)**	(249)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**946**	373
INVESTING ACTIVITIES		
Cash received (used) in acquisitions, net of cash acquired	**573**	
Net decrease (increase) in short-term investments	**357**	1,303
Purchases of securities available for sale	**(4,030)**	(10)
Proceeds from sales of securities available for sale	**27**	
Proceeds from prepayments and maturities of securities available for sale	**2,612**	2,733
Proceeds from prepayments and maturities of held-to-maturity securities	**434**	238
Purchases of held-to-maturity securities	**(1,253)**	(2,481)
Purchases of other investments	**(20)**	(39)
Proceeds from sales of other investments	**11**	3
Proceeds from prepayments and maturities of other investments	**49**	72
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(451)**	(373)
Proceeds from sales of portfolio loans	**77**	135
Purchases of premises and equipment	**(34)**	60
Proceeds from sales of premises and equipment	**8**	1
Proceeds from sales of other real estate owned	**14**	45
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**(1,626)**	1,567

FINANCING ACTIVITIES				
Net increase (decrease) in deposits, excluding acquisitions		**1,038**		211
Net increase (decrease) in short-term borrowings		**49**		30
Net proceeds from issuance of long-term debt		**1,008**		29
Payments on long-term debt		**(1,033)**		(2,019)
Repurchase of Common Shares		**(177)**		(82)
Net proceeds from issuance of Common Shares		**14**		1
Cash dividends paid		**(107)**		(87)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**792**		(1,917)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS		**112**		23
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD		**584**		693
CASH AND DUE FROM BANKS AT END OF PERIOD	**$**	**696**	$	716
Additional disclosures relative to cash flows:				
Interest paid	**$**	**159**	$	249
Income taxes paid (refunded)		**62**		26
Noncash items:				
Loans transferred to portfolio from held for sale	**$**	**2**	$	39
Loans transferred to held for sale from portfolio		**38**		65
Loans transferred to other real estate owned		**14**		21

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

As used in these Notes, 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, KeyBank National Association.

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

References to our 2012 Form 10-K refer to our Form 10-K for the year ended December 31, 2012, that has been filed with the U.S. Securities and Exchange Commission and is available on its website (www.sec.gov) or on our website (www.key.com/ir).

Table of Contents

ABO: Accumulated benefit obligation.
AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
ALLL: Allowance for loan and lease losses.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
APBO: Accumulated postretirement benefit obligation.
Austin: Austin Capital Management, Ltd.
BHCA: Bank Holding Company Act of 1956, as amended.
BHCs: Bank holding companies.
CCAR: Comprehensive Capital Analysis and Review.
CFPB: Bureau of Consumer Financial Protection.
CFTC: Commodities Futures Trading Commission.
CMO: Collateralized mortgage obligation.
Common Shares: Common Shares, $1 par value.
CPP: Capital Purchase Program of the U.S. Treasury.
DIF: Deposit Insurance Fund of the FDIC.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
ERISA: Employee Retirement Income Security Act of 1974.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIA: Federal Deposit Insurance Act, as amended.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System.
FHFA: Federal Housing Finance Agency.
FHLMC: Federal Home Loan Mortgage Corporation.
FINRA: Financial Industry Regulatory Authority.
FNMA: Federal National Mortgage Association.
FOMC: Federal Open Market Committee of the Federal Reserve Board.
FSOC: Financial Stability Oversight Council.
FVA: Fair value of pension plan assets.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
HUD: U.S. Department of Housing and Urban Development.
IRS: Internal Revenue Service.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
LILO: Lease in, lease out transaction.
Moody s: Moody s Investor Services, Inc.
N/A: Not applicable.
NASDAQ: The NASDAQ Stock Market LLC.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NPR: Notice of proposed rulemaking.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OFR: Office of Financial Research of the U.S. Department of Treasury.
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
QSPE: Qualifying special purpose entity.
PBO: Projected benefit obligation.
PCCR: Purchased credit card relationship.
PCI: Purchased credit impaired.
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SCAP: Supervisory Capital Assessment Program administered by the Federal Reserve.
SEC: U.S. Securities & Exchange Commission.
Series A Preferred Stock: KeyCorp s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
SIFIs: Systemically important financial companies, including BHCs with total consolidated assets of at least $50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.
SILO: Sale in, lease out transaction.
SPE: Special purpose entity.
TDR: Troubled debt restructuring.
TE: Taxable equivalent.
U.S. Treasury: United States Department of the Treasury.
VaR: Value at risk.
VEBA: Voluntary Employee Beneficiary Association.
Victory: Victory Capital Management and/or Victory Capital Advisors.
VIE: Variable interest entity.
XBRL: eXtensible Business Reporting Language.

The consolidated financial statements include the accounts of KeyCorp and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Some previously reported amounts have been reclassified to conform to current reporting practices.

The consolidated financial statements include any voting rights entities in which we have a controlling financial interest. In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have:

(i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity s economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments. See Note 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% generally are carried at cost. Investments held by our registered broker-dealer and investment company subsidiaries (primarily principal investments) 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 2012 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.

Offsetting Derivative Positions

In accordance with the applicable accounting guidance, we take into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related cash collateral when recognizing derivative assets and liabilities. Additional information regarding derivative offsetting is provided in Note 7 (Derivatives and Hedging Activities).

Accounting Guidance Adopted in 2013

Testing indefinite-lived intangible assets for impairment. In July 2012, the FASB issued new accounting guidance that simplifies how an entity tests indefinite-lived intangible assets other than goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether further testing for impairment of indefinite-lived intangible assets other than goodwill is required. This accounting guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (January 1, 2013, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Offsetting disclosures. In December 2011, the FASB issued new accounting guidance that requires an entity to disclose information about offsetting and related arrangements to enable financial statement users to understand the effect of those arrangements on the entity s financial position. In January 2013, the FASB issued new accounting guidance that clarified the scope of the guidance to include derivatives, repurchase and reverse repurchase agreements, and securities lending and borrowing transactions. This accounting guidance was effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (effective January 1, 2013, for us). Information about our offsetting and related arrangements is provided in Note 12 (Securities Financing Activities).

Reporting of amounts reclassified out of AOCI. In February 2013, the FASB issued new accounting guidance that requires reclassifications of amounts out of AOCI to be reported in a new format. It does not require the reporting of any information that is not currently required to be disclosed under existing GAAP. This accounting guidance was effective prospectively for reporting periods beginning after December 15, 2012 (effective January 1, 2013, for us). The disclosures required by this accounting guidance are provided in Note 16 (Accumulated Other Comprehensive Income).

Table of Contents

Accounting Guidance Pending Adoption at June 30, 2013

Benchmark interest rate. In July 2013, the FASB issued new accounting guidance allowing entities to designate the Federal Funds Effective Swap Rate (which is the Overnight Index Swap rate, or OIS rate, in the U.S.) as a benchmark interest rate, in addition to U.S. Treasury and LIBOR rates, for hedge accounting purposes. This new accounting guidance is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013 (effective July 17, 2013, for us). Note 7 (Derivatives and Hedging Activities) provides information regarding our use of derivatives and hedge accounting.

Presentation of unrecognized tax benefits. In July 2013, the FASB issued new accounting guidance that requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. This accounting guidance will be applied prospectively to unrecognized tax benefits that exist at the effective date. It will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (effective January 1, 2014, for us). Early adoption and/or retrospective application are permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

Investment companies. In June 2013, the FASB issued new accounting guidance that modifies the criteria used in defining an investment company. It also sets forth certain measurement and disclosure requirements for an investment company. This accounting guidance will be effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013 (effective January 1, 2014, for us). Early application is prohibited. We are currently evaluating the impact this accounting guidance may have on our financial condition or results of operations.

Liquidation basis of accounting. In April 2013, the FASB issued new accounting guidance that specifies when and how an entity should prepare its financial statements using the liquidation basis of accounting when liquidation is imminent as defined in the guidance and describes the related disclosures that should be made. This new accounting guidance will be effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein (effective January 1, 2014, for us). Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted.

Reporting of cumulative translation adjustments upon the derecognition of certain investments. In March 2013, the FASB issued new accounting guidance that addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This accounting guidance will be effective prospectively for reporting periods beginning after December 15, 2013 (effective January 1, 2014, for us). 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

2. Earnings Per Common Share

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

dollars in millions, except per share amounts	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
EARNINGS				
Income (loss) from continuing operations	**$ 199**	$ 227	**$ 401**	$ 428
Less: Net income (loss) attributable to noncontrolling interests		5	**1**	5
Income (loss) from continuing operations attributable to Key	**199**	222	**400**	423
Less: Dividends on Series A Preferred Stock	**6**	5	**11**	11
Income (loss) from continuing operations attributable to Key common shareholders	**193**	217	**389**	412
Income (loss) from discontinued operations, net of taxes [(a)]	**5**	14	**8**	13
Net income (loss) attributable to Key common shareholders	**$ 198**	$ 231	**$ 397**	$ 425
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**913,736**	944,648	**917,008**	946,995
Effect of dilutive convertible preferred stock, common share options and other stock awards (000)	**4,892**	3,439	**5,311**	4,034
Weighted-average common shares and potential common shares outstanding (000)	**918,628**	948,087	**922,319**	951,029
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .21**	$ .23	**$ .42**	$ .44
Income (loss) from discontinued operations, net of taxes [(a)]	**.01**	.01	**.01**	.01

Net income (loss) attributable to Key common shareholders [b]		**.22**		.24		**.43**		.45
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.21**	$	.23	**$**	**.42**	$	.43
Income (loss) from discontinued operations, net of taxes [a]		**.01**		.01		**.01**		.01
Net income (loss) attributable to Key common shareholders assuming dilution [b]		**.22**		.24		**.43**		.45

(a) In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. In September 2009, we decided to discontinue the education lending business conducted through Key Education Resources, the education payment and financing unit of KeyBank. In February 2013, we decided to sell Victory to a private equity fund. As a result of these decisions, we have accounted for these businesses as discontinued operations. For further discussion regarding the income (loss) from discontinued operations see Note 11. (Acquisitions and Discontinued Operations).

(b) EPS may not foot due to rounding.

Table of Contents

3. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	June 30, 2013	December 31, 2012	June 30, 2012
Commercial, financial and agricultural [a]	**$ 23,715**	$ 23,242	$ 20,916
Commercial real estate:			
Commercial mortgage	**7,474**	7,720	7,409
Construction	**1,060**	1,003	1,172
Total commercial real estate loans	**8,534**	8,723	8,581
Commercial lease financing	**4,774**	4,915	5,106
Total commercial loans	**37,023**	36,880	34,603
Residential prime loans:			
Real estate residential mortgage	**2,176**	2,174	2,016
Home equity:			
Key Community Bank	**10,173**	9,816	9,601
Other	**375**	423	479
Total home equity loans	**10,548**	10,239	10,080
Total residential prime loans	**12,724**	12,413	12,096
Consumer other Key Community Bank	**1,424**	1,349	1,263
Credit cards	**701**	729	
Consumer other:			
Marine	**1,160**	1,358	1,542
Other	**69**	93	101
Total consumer other	**1,229**	1,451	1,643
Total consumer loans	**16,078**	15,942	15,002
Total loans [b] [c]	**$ 53,101**	$ 52,822	$ 49,605

(a) June 30, 2013 and December 31, 2012 loan balances include $96 million and $90 million of commercial credit card balances, respectively.

(b)

Excluded at June 30, 2013, December 31, 2012, and June 30, 2012, are loans in the amount of $5.0 billion, $5.2 billion and $5.5 billion, respectively, related to the discontinued operations of the education lending business.

(c) June 30, 2013 loan balance includes purchased loans of $187 million of which $19 million were PCI loans. December 31, 2012 loan balance includes purchased loans of $217 million of which $23 million were PCI loans.

Our loans held for sale are summarized as follows:

in millions		**June 30, 2013**		December 31, 2012		June 30, 2012
Commercial, financial and agricultural	**$**	**22**	$	29	$	18
Real estate commercial mortgage		**318**		477		523
Real estate construction						12
Commercial lease financing		**14**		8		13
Real estate residential mortgage		**48**		85		90
Total loans held for sale	**$**	**402**	$	599	$	656

Our quarterly summary of changes in loans held for sale as follows:

in millions		**June 30, 2013**		December 31, 2012		June 30, 2012
Balance at beginning of the period	**$**	**434**	$	628	$	511
New originations		**1,241**		1,686		1,308
Transfers from held to maturity, net		**17**		38		7
Loan sales		**(1,292)**		(1,747)		(1,165)
Loan draws (payments), net				(4)		(4)
Transfers to OREO / valuation adjustments		**2**		(2)		(1)
Balance at end of period	**$**	**402**	$	599	$	656

15

Table of Contents

4. Asset Quality

We manage our exposure to credit risk by closely monitoring loan performance trends and general economic conditions. An indicator of potential credit losses is the level of nonperforming assets and past due loans.

Our nonperforming assets and past due loans were as follows:

in millions		June 30, 2013		December 31, 2012		June 30, 2012
Total nonperforming loans [a], [b]	**$**	**652**	$	674	$	657
Nonperforming loans held for sale		**14**		25		38
OREO		**18**		22		28
Other nonperforming assets		**9**		14		28
Total nonperforming assets	**$**	**693**	$	735	$	751
Nonperforming assets from discontinued operations - education lending [c]	**$**	**19**	$	20	$	18
Restructured loans included in nonperforming loans [a]	**$**	**195**	$	249	$	163
Restructured loans with an allocated specific allowance [d]		**65**		114		71
Specifically allocated allowance for restructured loans [e]		**30**		33		34
Accruing loans past due 90 days or more	**$**	**80**	$	78	$	131
Accruing loans past due 30 through 89 days		**251**		424		362

(a) December 31, 2012 loan balance includes $72 million of performing secured loans that were discharged through Chapter 7 bankruptcy and not formally re-affirmed, as addressed in updated regulatory guidance issued in the third quarter of 2012. Such loans have been designated as nonperforming and TDRs.

(b) June 30, 2013 and December 31, 2012, loan balance exclude $19 million and $23 million of PCI loans, respectively.

(c)

Includes approximately $8 million and $3 million of restructured loans at June 30, 2013 and December 31, 2012, respectively. There were no additional restructured loans at June 30, 2012. See Note 11 (Acquisitions and Discontinued Operations) for further discussion.

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

(e) Included in allowance for individually evaluated impaired loans.

We evaluate purchased loans for impairment in accordance with the applicable accounting guidance. Purchased loans that have evidence of deterioration in credit quality since origination and for which it is probable, at acquisition, that all contractually required payments will not be collected are deemed PCI and initially recorded at fair value without recording an allowance for loan losses. At the date of acquisition, the estimated gross contractual amount receivable of PCI loans totaled $41 million. The estimated cash flows not expected to be collected (the nonaccretable amount) was $11 million, and the accretable amount was approximately $5 million. The difference between the fair value and the cash flows expected to be collected from the purchased loans is accreted to interest income over the remaining term of the loans.

At June 30, 2013, the outstanding unpaid principal balance and carrying value of all PCI loans was $27 million and $19 million, respectively. Changes in the accretable yield during 2013 included accretion of $1 million and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at June 30, 2013.

At June 30, 2013, the approximate carrying amount of our commercial nonperforming loans outstanding represented 63% of their original contractual amount, total nonperforming loans outstanding represented 76% of their original contractual amount owed, and nonperforming assets in total were carried at 74% of their original contractual amount.

At June 30, 2013, our twenty largest nonperforming loans totaled $191 million, representing 29% of total loans on nonperforming status from continuing operations. At June 30, 2012, the twenty largest nonperforming loans totaled $220 million, representing 33% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $13 million for the six months ended June 30, 2013, and $25 million for the year ended December 31, 2012.

Table of Contents

The following tables set forth a further breakdown of individually impaired loans as of June 30, 2013, December 31, 2012 and June 30, 2012:

June 30, 2013 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 89	$ 140		$ 91
Commercial real estate:				
Commercial mortgage	88	138		88
Construction	50	157		49
Total commercial real estate loans	138	295		137
Total commercial loans with no related allowance recorded	227	435		228
Real estate residential mortgage	16	16		16
Home equity:				
Key Community Bank	69	69		66
Other	2	2		2
Total home equity loans	71	71		68
Consumer other:				
Marine	3	3		3
Total consumer other	3	3		3
Total consumer loans	90	90		87
Total loans with no related allowance recorded	317	525		315
With an allowance recorded:				
Commercial, financial and agricultural	22	31	$ 6	18
Commercial real estate:				
Commercial mortgage	5	6	2	7
Construction	2	12		1
Total commercial real estate loans	7	18	2	8
Total commercial loans with an allowance recorded	29	49	8	26

Real estate residential mortgage	20	20	5	19
Home equity:				
Key Community Bank	30	30	9	28
Other	10	10	1	10
Total home equity loans	40	40	10	38
Consumer other Key Community Bank	3	3	1	3
Credit cards	4	4		4
Consumer other:				
Marine	50	50	10	49
Other	1	1		1
Total consumer other	51	51	10	50
Total consumer loans	118	118	26	114
Total loans with an allowance recorded	147	167	34	140
Total	$ 464	$ 692	$ 34	$ 455

(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

(b) The Unpaid Principal Balance represents the customer's legal obligation to us.

Table of Contents

December 31, 2012 *in millions*	Recorded Investment (a)	Unpaid Principal Balance (b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 32	$ 64		$ 60
Commercial real estate:				
Commercial mortgage	89	142		95
Construction	48	182		39
Total commercial real estate loans	137	324		134
Total commercial loans with no related allowance recorded	169	388		194
Real estate residential mortgage	21	21		10
Home equity:				
Key Community Bank	65	65		33
Other	3	3		1
Total home equity loans	68	68		34
Total consumer loans	89	89		44
Total loans with no related allowance recorded	258	477		238
With an allowance recorded:				
Commercial, financial and agricultural	33	42	$ 12	48
Commercial real estate:				
Commercial mortgage	7	7	1	51
Construction				6
Total commercial real estate loans	7	7	1	57
Total commercial loans with an allowance recorded	40	49	13	105
Real estate residential mortgage	17	17	1	8
Home equity:				
Key Community Bank	22	22	11	11
Other	9	9	1	5
Total home equity loans	31	31	12	16
Consumer other Key Community Bank	2	2	2	1
Credit cards	2	2		1

Consumer other:				
Marine	60	60	7	30
Other	1	1		1
Total consumer other	61	61	7	31
Total consumer loans	113	113	22	57
Total loans with an allowance recorded	153	162	35	162
Total	$ 411	$ 639	$ 35	$ 400

(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

(b) The Unpaid Principal Balance represents the customer s legal obligation to us.

Table of Contents

June 30, 2012 *in millions*	Recorded Investment (a)	Unpaid Principal Balance (b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	$ 59	$ 142		$ 68
Commercial real estate:				
Commercial mortgage	112	199		113
Construction	51	204		49
Total commercial real estate loans	163	403		162
Total commercial loans with no related allowance recorded	222	545		230
Real estate residential mortgage	1	1		1
Home equity:				
Key Community Bank				
Other				
Total home equity loans				
Consumer other Key Community Bank				
Credit cards				
Consumer other:				
Marine				
Other				
Total consumer other				
Total consumer loans	1	1		1
Total loans with no related allowance recorded	223	546		231
With an allowance recorded:				
Commercial, financial and agricultural	43	53	$ 12	46
Commercial real estate:				
Commercial mortgage	56	98	15	63
Construction	4	4	3	4
Total commercial real estate loans	60	102	18	67
Commercial lease financing				
Total commercial loans with an allowance recorded	103	155	30	113

Real estate residential mortgage	16	17	2	8
Home equity:				
Key Community Bank	11	11	3	6
Other	6	6	1	3
Total home equity loans	17	17	4	9
Consumer other Key Community Bank	2	2	1	1
Credit cards				
Consumer other:				
Marine	50	50	11	25
Other				
Total consumer other	50	50	11	25
Total consumer loans	85	86	18	43
Total loans with an allowance recorded	188	241	48	156
Total	$ 411	$ 787	$ 48	$ 387

(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

(b) The Unpaid Principal Balance represents the customer's legal obligation to us.

For the three months ended June 30, 2013, and 2012, interest income recognized on the outstanding balances of accruing impaired loans totaled $1 million and $2 million, respectively.

At June 30, 2013, aggregate restructured loans (accrual, nonaccrual and held-for-sale loans) totaled $311 million, compared to $320 million at December 31, 2012, and $274 million at June 30, 2012. We added $72 million in restructured loans during the first six months of 2013, which were offset by $81 million in payments and charge-offs.

Table of Contents

A further breakdown of TDRs included in nonperforming loans by loan category as of June 30, 2013, follows:

June 30, 2013 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	43	$ 53	$ 24
Commercial real estate:			
Real estate commercial mortgage	15	58	21
Real estate construction	6	19	5
Total commercial real estate loans	21	77	26
Total commercial loans	64	130	50
Real estate residential mortgage	381	23	23
Home equity:			
Key Community Bank	1,683	89	87
Other	262	8	8
Total home equity loans	1,945	97	95
Consumer other Key Community Bank	54	2	2
Credit cards	506	3	3
Consumer other:			
Marine	360	41	21
Other	48	2	1
Total consumer other	408	43	22
Total consumer loans	3,294	168	145
Total nonperforming TDRs	3,358	298	195
Prior-year accruing [(a)]			
Commercial, financial and agricultural	87	10	5
Commercial real estate:			
Real estate commercial mortgage	4	22	15
Real estate construction	1	23	32
Total commercial real estate loans	5	45	47

Total commercial loans	92		55		52
Real estate residential mortgage	118		12		12
Home equity:					
Key Community Bank	134		14		14
Other	178		5		5
Total home equity loans	312		19		19
Consumer other Key Community Bank	26		1		1
Credit cards	309		2		2
Consumer other:					
Marine	243		29		28
Other	49		2		2
Total consumer other	292		31		30
Total consumer loans	1,057		65		64
Total prior-year accruing TDRs	1,149		120		116
Total TDRs	4,507	$	418	$	311

(a) All TDRs that were restructured prior to January 1, 2013, and are fully accruing.

Table of Contents

A further breakdown of TDRs included in nonperforming loans by loan category as of December 31, 2012, follows:

December 31, 2012 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	82	$ 76	$ 39
Commercial real estate:			
Real estate commercial mortgage	15	62	25
Real estate construction	8	53	33
Total commercial real estate loans	23	115	58
Total commercial loans	105	191	97
Real estate residential mortgage	372	28	28
Home equity:			
Key Community Bank	1,577	87	82
Other	322	9	8
Total home equity loans	1,899	96	90
Consumer other Key Community Bank	28	1	1
Credit cards	405	3	3
Consumer other:			
Marine	251	30	29
Other	34	1	1
Total consumer other	285	31	30
Total consumer loans	2,989	159	152
Total nonperforming TDRs	3,094	350	249
Prior-year accruing [(a)]			
Commercial, financial and agricultural	122	12	6
Commercial real estate:			
Real estate commercial mortgage	4	22	15
Total commercial real estate loans	4	22	15

Total commercial loans	126		34	21
Real estate residential mortgage	101		10	10
Home equity:				
Key Community Bank	76		5	5
Other	84		3	3
Total home equity loans	160		8	8
Consumer other Key Community Bank	16			
Consumer other:				
Marine	117		31	31
Other	43		1	1
Total consumer other	160		32	32
Total consumer loans	437		50	50
Total prior-year accruing TDRs	563		84	71
Total TDRs	3,657	$	434	$ 320

(a) All TDRs that were restructured prior to January 1, 2012, and are fully accruing.

Table of Contents

A further breakdown of TDRs included in nonperforming loans by loan category as of June 30, 2012, follows:

June 30, 2012 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	95	$ 108	$ 59
Commercial real estate:			
Real estate commercial mortgage	16	47	31
Real estate construction	11	60	43
Total commercial real estate loans	27	107	74
Total commercial loans	122	215	133
Real estate residential mortgage	56	7	7
Home equity:			
Key Community Bank	50	4	4
Other	74	2	1
Total home equity loans	124	6	5
Consumer other Key Community Bank	11	1	1
Consumer other:			
Marine	139	17	17
Other	11	1	
Total consumer other	150	18	17
Total consumer loans	341	32	30
Total nonperforming TDRs	463	247	163
Prior-year accruing [(a)]			
Commercial, financial and agricultural	115	8	6
Commercial real estate:			
Real estate commercial mortgage	7	71	48
Real estate construction	1	15	1
Total commercial real estate loans	8	86	49

Total commercial loans	123		94	55
Real estate residential mortgage	111		11	11
Home equity:				
Key Community Bank	88		7	7
Other	101		3	3
Total home equity loans	189		10	10
Consumer other Key Community Bank	20		1	
Consumer other:				
Marine	135		34	33
Other	53		2	2
Total consumer other	188		36	35
Total consumer loans	508		58	56
Total prior-year accruing TDRs	631		152	111
Total TDRs	1,094	$	399 $	274

(a) All TDRs that were restructured prior to January 1, 2012, and are fully accruing.

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession to the borrower without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are evaluated for impairment individually to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. The financial effects of TDRs are reflected in the components that make up the allowance for loan and lease losses in either the amount of a charge-off or the loan loss provision. These components affect the ultimate allowance level. Additional information regarding TDRs for discontinued operations is provided in Note 11 (Acquisitions and Discontinued Operations).

Commercial loan TDRs are considered defaulted when principal and interest payments are 90 days past due. Consumer loan TDRs are considered defaulted when principal and interest payments are more than 60 days past due. There were 127 consumer loan TDRs with a combined recorded investment of $5 million that have experienced payment defaults during the three months ended June 30, 2013 compared to 240 consumer TDRs with a combined recorded investment of $14 million during the three months ended March 31, 2013 from modifications resulting in TDR status during 2012. There were no significant payment defaults during the first six months of 2013 arising from commercial loans that were designated as TDRs during 2012.

Table of Contents

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 our client s financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal and other modifications. Other loan term modifications for consumer TDRs include concessions made due to updated regulatory guidance issued in the third quarter of 2012.

The following table shows the concession types for our commercial and consumer accruing and nonaccruing TDRs and other selected financial data.

dollars in millions		**June 30, 2013**		December 31, 2012		June 30, 2012
Commercial loans:						
Interest rate reduction	**$**	**88**	$	104	$	155
Forgiveness of principal		**6**		7		13
Other modification of loan terms		**8**		7		20
Total	**$**	**102**	$	118	$	188
Consumer loans:						
Interest rate reduction	**$**	**104**	$	122	$	81
Forgiveness of principal		**5**		6		5
Other modification of loan terms		**100**		74		
Total	**$**	**209**	$	202	$	86
Total commercial and consumer TDRs [(a)]	**$**	**311**	$	320	$	274
Total loans		**53,101**		52,822		49,605

(a) Commitments outstanding to lend additional funds to borrowers whose terms have been modified in TDRs are $25 million, $32 million, and $45 million at June 30, 2013, December 31, 2012, and June 30, 2012, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans on page 120 of our 2012 Form 10-K. Pursuant to regulatory guidance issued in January 2012, the above-mentioned policy for nonperforming loans was revised effective for the second quarter of 2012. Beginning in the second quarter of 2012, any second lien home equity loan with an associated first lien that is 120 days or more past due or in foreclosure or for which the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan. This policy was implemented prospectively, and, therefore, prior periods were not restated or re-presented. Credit card loans on which payments are past due for 90 days are placed on nonaccrual status.

At June 30, 2013, approximately $52.1 billion, or 98.1%, of our total loans are current. At June 30, 2013, total past due loans and nonperforming loans of $983 million represent approximately 1.9% of total loans.

Table of Contents

The following aging analysis as of June 30, 2013, December 31, 2012, and June 30, 2012, of past due and current loans provides further information regarding Key's credit exposure.

30, 2013 ions	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans	Total Past Due and Nonperforming Loans	Purchased Credit Impaired	Tot Loa
N TYPE								
ercial, al and tural	$ 23,512	$ 37	$ 9	$ 11	$ 146	$ 203		$ 2
ercial tate:								
ercial ge	7,307	16	5	38	106	165	$ 2	7
uction	1,031	3			26	29		1
ercial tate	8,338	19	5	38	132	194	2	8
ercial ng	4,734	14	7	5	14	40		4
ercial	$ 36,584	$ 70	$ 21	$ 54	$ 292	$ 437	$ 2	$ 3
state ntial ge	$ 2,037	$ 20	$ 7	$ 3	$ 94	$ 124	$ 15	$ 2
equity:								
unity	9,877	51	25	13	205	294	2	10
	347	7	3	2	16	28		
ome loans	10,224	58	28	15	221	322	2	10
	1,403	9	3	6	3	21		1

mer Key unity								
cards	680	6	4		11	21		
mer								
e	1,106	18	5	1	30	54		
	65	2		1	1	4		
ner	1,171	20	5	2	31	58		
ner	$ 15,515	$ 113	$ 47	$ 26	$ 360	$ 546	$ 17	$ 16
oans	$ 52,099	$ 183	$ 68	$ 80	$ 652	$ 983	$ 19	$ 53

ber 31, ions	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans [a]	Total Past Due and Nonperforming Loans	Purchased Credit Impaired	Tot Loa
N TYPE								
ercial, al and tural	$ 23,030	$ 56	$ 34	$ 22	$ 99	$ 211	$ 1	$ 23
ercial tate:								
ercial ge	7,556	21	11	9	120	161	3	7
uction	943	1	2	1	56	60		1
ercial tate	8,499	22	13	10	176	221	3	8
ercial ing	4,772	88	31	8	16	143		4
ercial	$ 36,301	$ 166	$ 78	$ 40	$ 291	$ 575	$ 4	$ 36

state ntial age	$ 2,023	$ 16	$ 10	$ 6	$ 103	$ 135	$ 16	$ 2
equity:								
unity	9,506	54	26	17	210	307	3	9
	387	9	4	2	21	36		
home loans	9,893	63	30	19	231	343	3	10
mer Key unity	1,325	9	5	8	2	24		
cards	706	7	5		11	23		
mer								
e	1,288	23	9	4	34	70		1
	87	2	1	1	2	6		
ner	1,375	25	10	5	36	76		1
ner	$ 15,322	$ 120	$ 60	$ 38	$ 383	$ 601	$ 19	$ 15
oans	$ 51,623	$ 286	$ 138	$ 78	$ 674	$ 1,176	$ 23	$ 52

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

012	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans	Total Past Due and Nonperforming Loans	
PE							
al, financial and agricultural	$ 20,678	$ 60	$ 13	$ 24	$ 141	$ 238	$
al real estate:							
al mortgage	7,182	15	16	24	172	227	
on	1,033	12	24	35	68	139	
mercial real estate loans	8,215	27	40	59	240	366	
al lease financing	5,051	22	8	7	18	55	
mercial loans	$ 33,944	$ 109	$ 61	$ 90	$ 399	$ 659	$
residential mortgage	$ 1,895	$ 24	$ 10	$ 9	$ 78	$ 121	$
ty:							
nunity Bank	9,361	56	26	17	141	240	
	445	10	4	3	17	34	
e equity loans	9,806	66	30	20	158	274	
other Key Community Bank	1,237	13	4	7	2	26	
other:							
	1,478	31	10	4	19	64	
	95	2	2	1	1	6	
umer other	1,573	33	12	5	20	70	
umer loans	$ 14,511	$ 136	$ 56	$ 41	$ 258	$ 491	$
s	$ 48,455	$ 245	$ 117	$ 131	$ 657	$ 1,150	$

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 assigned loan risk rating grades for the commercial loan portfolios and the regulatory risk ratings assigned for the consumer loan portfolios. This risk rating stratification assists in the determination of the ALLL. Loan grades are assigned at the time of origination, verified by credit risk management, and periodically reevaluated thereafter.

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

Credit quality indicators for loans are updated on an ongoing basis. Bond rating classifications are indicative of the credit quality of our commercial loan portfolios and are determined by converting our internally assigned risk rating grades to bond rating categories. Payment activity and the regulatory classifications of pass and substandard are indicators of the credit quality of our consumer loan portfolios.

Credit quality indicators for our commercial and consumer loan portfolios, excluding $19 million of PCI loans at June 30, 2013, based on bond rating, regulatory classification and payment activity as of June 30, 2013, and 2012 are as follows:

Table of Contents

Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category (a)

cial, financial and gricultural		RE Commercial		RE Construction		Commercial Lease		
)13	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	
75	$ 165	**$ 1**		**$ 1**	$ 1	**$ 485**	$ 605	**$**
18	680	**74**	$ 64	**1**	1	**1,011**	992	
55	18,182	**6,600**	5,925	**871**	791	**3,046**	3,179	
60	868	**364**	553	**23**	58	**145**	197	
07	1,021	**433**	867	**164**	321	**87**	133	
15	$ 20,916	**$ 7,472**	$ 7,409	**$ 1,060**	$ 1,172	**$ 4,774**	$ 5,106	**$**

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

(b) Our bond rating to internal loan grade conversion system is as follows: AAA - AA = 1, A = 2, BBB - BB = 3 - 13, B = 14 - 16, and CCC - C = 17 - 20.

(c) Our internal loan grade to regulatory-defined classification is as follows: Pass = 1-16, Special Mention = 17, Substandard = 18, Doubtful = 19, and Loss = 20.

Consumer Credit Exposure

Credit Risk Profile by Regulatory Classifications (a) (b)

June 30,

in millions

Residential Prime

GRADE	2013	2012
Pass	**$ 12,374**	$ 11,831
Substandard	**333**	265
Total	**$ 12,707**	$ 12,096

Credit Risk Profile Based on Payment Activity [a] [b]

umer	Key Community Bank 2013	2012	Credit cards 2013	2012	Consumer Marine 2013	2012	Consumer Other 2013	2012	2
	1,421	$ 1,261	**$ 690**		**$ 1,130**	$ 1,523	**$ 68**	$ 100	**$ 3**
	3	2	**11**		**30**	19	**1**	1	
	1,424	$ 1,263	**$ 701**		**$ 1,160**	$ 1,542	**$ 69**	$ 101	**$ 3**

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

(b) Our past due payment activity to regulatory classification conversion is as follows: pass = less than 90 days; and substandard = 90 days and greater plus nonperforming loans. Beginning in the second quarter of 2012, any second lien home equity loan with an associated first lien that is 120 days or more past due or in foreclosure or for which the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan in accordance with regulatory guidance issued in January 2012.

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 on page 120 of our 2012 Form 10-K. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of impairment by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at June 30, 2013, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

Although quantitative modeling factors such as default probability and expected recovery rates are constantly changing as the financial strength of the borrower and overall economic conditions change, there have been no changes to the accounting policies or methodology we used to estimate the ALLL.

Table of Contents

Commercial loans generally are charged off in full or charged down to the fair value of the underlying collateral when the borrower s payment is 180 days past due. Home equity and residential mortgage loans generally are charged down to the fair value of the underlying collateral when payment is 180 days past due. Credit card loans are charged off when payments are 180 days past due. All other consumer loans are charged off when payments are 120 days past due.

At June 30, 2013, the ALLL was $876 million, or 1.65% of loans, compared to $888 million, or 1.79% of loans, at June 30, 2012. At June 30, 2013, the ALLL was 134.36% of nonperforming loans, compared to 135.16% at June 30, 2012.

A summary of the allowance for loan and lease losses for the periods indicated is presented in the table below:

in millions	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Balance at beginning of period continuing operations	**$ 893**	$ 944	**$ 888**	$ 1,004
Charge-offs	**(74)**	(131)	**(164)**	(263)
Recoveries	**29**	54	**70**	85
Net loans and leases charged off	**(45)**	(77)	**(94)**	(178)
Provision for loan and lease losses from continuing operations	**28**	21	**83**	63
Foreign currency translation adjustment			**(1)**	(1)
Balance at end of period continuing operations	**$ 876**	$ 888	**$ 876**	$ 888

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

in millions	December 31, 2012	Provision	Charge-offs	Recoveries	June 30, 2013
Commercial, financial and agricultural	$ 327	**$ 35**	**$ (29)**	**$ 19**	**$ 352**
Real estate commercial mortgage	198	**(10)**	**(16)**	**10**	**182**
Real estate construction	41	**(13)**	**(2)**	**8**	**34**
Commercial lease financing	55	**6**	**(8)**	**8**	**61**

Total commercial loans	621	**18**	**(55)**	**45**	**629**
Real estate residential mortgage	30	**13**	**(10)**		**33**
Home equity:					
Key Community Bank	105	**19**	**(36)**	**6**	**94**
Other	25		**(12)**	**3**	**16**
Total home equity loans	130	**19**	**(48)**	**9**	**110**
Consumer other Key Community Bank	38	**7**	**(16)**	**4**	**33**
Credit cards	26	**21**	**(16)**	**2**	**33**
Consumer other:					
Marine	39	**4**	**(17)**	**9**	**35**
Other	4		**(2)**	**1**	**3**
Total consumer other:	43	**4**	**(19)**	**10**	**38**
Total consumer loans	267	**64**	**(109)**	**25**	**247**
Total ALLL continuing operations	888	**82** [a]	**(164)**	**70**	**876**
Discontinued operations	55	**5**	**(28)**	**9**	**41**
Total ALLL including discontinued operations	$ 943	**$ 87**	**$ (192)**	**$ 79**	**$ 917**

(a) Includes $1 million of foreign currency translation adjustment.

Table of Contents

in millions	December 31, 2011	Provision	Charge-offs	Recoveries	June 30, 2012
Commercial, financial and agricultural	$ 334	$ (12)	$ (49)	$ 31	$ 304
Real estate commercial mortgage	272	8	(46)	16	250
Real estate construction	63	6	(16)	2	55
Commercial lease financing	78		(20)	10	68
Total commercial loans	747	2	(131)	59	677
Real estate residential mortgage	37		(13)	2	26
Home equity:					
Key Community Bank	103	21	(48)	4	80
Other	29	9	(17)	3	24
Total home equity loans	132	30	(65)	7	104
Consumer other Key Community Bank	41	10	(20)	3	34
Consumer other:					
Marine	46	15	(30)	13	44
Other	1	5	(4)	1	3
Total consumer other:	47	20	(34)	14	47
Total consumer loans	257	60	(132)	26	211
Total ALLL continuing operations	1,004	62 (a)	(263)	85	888
Discontinued operations	104	6	(39)	8	79
Total ALLL including discontinued operations	$ 1,108	$ 68	$ (302)	$ 93	$ 967

(a) Includes $1 million of foreign currency translation adjustment.

Our ALLL decreased by $12 million, or 1%, since the second quarter of 2012. This contraction was associated with the improvement in credit quality of our loan portfolios, which has trended more favorably over the past four quarters. The quality of new loan originations and decreasing NPLs and net charge-offs has resulted in a reduction in our general allowance. Our general allowance encompasses the application of expected loss rates to our existing loans with similar risk characteristics, an assessment of factors such as changes in economic conditions and changes in credit policies or underwriting standards. Our delinquency trends showed continued improvement during 2012 and into 2013. We attribute this improvement to a moderate level of loan growth, more favorable conditions in the capital markets, improvement in client income statements, and continued run off in our exit loan portfolio.

For continuing operations, the loans outstanding individually evaluated for impairment totaled $464 million, with a corresponding allowance of $34 million at June 30, 2013. Loans outstanding collectively evaluated for impairment totaled $52.6 billion, with a corresponding allowance of $842 million at June 30, 2013. At June 30, 2013, PCI loans evaluated for impairment totaled $19 million, with a corresponding allowance of less than $1 million. There was no provision for loan and lease losses on these PCI loans during the quarter ended June 30, 2013.

Table of Contents

A breakdown of the individual and collective ALLL and the corresponding loan balances as of June 30, 2013, follows:

	Allowance				Outstanding	
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired	Loans	Individually Evaluated for Impairment	
l	$ 6	$ 346		$ 23,715	$ 111	$
	2	180		7,474	93	
		34		1,060	52	
	2	214		8,534	145	
		61		4,774		
	8	621		37,023	256	
	5	28		2,176	35	
	9	85		10,173	99	
	1	15		375	13	
	10	100		10,548	112	
ank		33		1,424	3	
		33		701	4	
	10	25		1,160	53	
	1	2		69	1	
	11	27		1,229	54	
	26	221		16,078	208	
	34	842		53,101	464	
	2	39		4,992 (a)	8	
operations	$ 36	$ 881		$ 58,093	$ 472	$

(a) Amount includes $2.5 billion of loans carried at fair value that are excluded from ALLL consideration.

A breakdown of the individual and collective ALLL and the corresponding loan balances as of December 31, 2012, follows:

	Allowance Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired	Loans	Outstanding Individually Evaluated for Impairment	
	$ 12	$ 314		$ 23,242	$ 65	$
	1	198		7,720	96	
		41		1,003	48	
	1	239		8,723	144	
		55		4,915		
	13	608		36,880	209	
	1	29	$ 1	2,174	38	
	11	94		9,816	87	
	1	24		423	12	
	12	118		10,239	99	
nk	2	36		1,349	2	
		26		729	2	
	7	32		1,358	60	
		3		93	1	
	7	35		1,451	61	
	22	244	1	15,942	202	
	35	852	1	52,822	411	
		55		5,201 (a)	3	
perations	$ 35	$ 907	$ 1	$ 58,023	$ 414	$

(a) Amount includes $2.5 billion of loans carried at fair value that are excluded from ALLL consideration.

29

Table of Contents

A breakdown of the individual and collective ALLL and the corresponding loan balances as of June 30, 2012, follows:

	Allowance[a]			Outstanding[a]	
e 30,					
llions	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans	Individually Evaluated for Impairment	Collectiv Evaluated Impairm
mercial, cial and ultural	$ 12	$ 292	$ 20,916	$ 102	$ 20,8
mercial estate:					
mercial gage	15	235	7,409	168	7,24
truction	3	52	1,172	55	1,1
l mercial estate s	18	287	8,581	223	8,3
mercial cing		68	5,106		5,10
l mercial s	30	647	34,603	325	34,2
estate ential gage	2	24	2,016	17	1,9
e y:					
munity	3	77	9,601	11	9,5
r	1	23	479	6	4
l home y loans	4	100	10,080	17	10,0
umer Key munity	1	33	1,263	2	1,2

umer r:									
ne		11		33		1,542		50	1,49
r				3		101			10
l umer r		11		36		1,643		50	1,59
l umer s		18		193		15,002		86	14,9
l ALLL nuing ations		48		840		49,605		411	49,19
ontinued ations				79		5,483 (b)			5,48
l ALLL ding ontinued ations	$	48	$	919	$	55,088	$	411	$ 54,67

(a) There were no PCI loans at June 30, 2012.

(b) Amount includes $2.8 billion of loans carried at fair value that are excluded from ALLL considerations.
The liability for credit losses inherent in lending-related unfunded commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments has decreased by $14 million since the second quarter of 2012 to $37 million at June 30, 2013. When combined with our ALLL, our total allowance for credit losses represented 1.72% of loans at June 30, 2013, compared to 1.89% at June 30, 2012.

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2013**	**2012**	**2013**	**2012**
Balance at beginning of period	**$ 32**	$ 45	**$ 29**	$ 45
Provision (credit) for losses on lending-related	**5**	6	**8**	6

commitments

Balance at end of period	**$**	**37**	$	51	**$**	**37**	$	51

30

Table of Contents

5. Fair Value Measurements

Fair Value Determination

As defined in the applicable accounting guidance, fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants in our principal market. We have established and documented our process for determining the fair values of our assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, we determine the fair value of our assets and liabilities using valuation models or third-party pricing services. Both of these approaches rely on market-based parameters, when available, such as interest rate yield curves, option volatilities, and credit spreads, or unobservable inputs. Unobservable inputs may be based on our judgment, assumptions, and estimates related to credit quality, liquidity, interest rates, and other relevant inputs.

Valuation adjustments, such as those pertaining to counterparty and our own credit quality and liquidity, may be necessary to ensure that assets and liabilities are recorded at fair value. Credit valuation adjustments are made when market pricing does not accurately reflect the counterparty s or our own credit quality. We make liquidity valuation adjustments to the fair value of certain assets to reflect the uncertainty in the pricing and trading of the instruments when we are unable to observe recent market transactions for identical or similar instruments. Liquidity valuation adjustments are based on the following factors:

¿ the amount of time since the last relevant valuation;

¿ whether there is an actual trade or relevant external quote available at the measurement date; and

¿ volatility associated with the primary pricing components.

We ensure that our fair value measurements are accurate and appropriate by relying upon various controls, including:

¿ an independent review and approval of valuation models and assumptions;

¿ recurring detailed reviews of profit and loss; and

¿ a validation of valuation model components against benchmark data and similar products, where possible.

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process for all lines of business and support areas, as applicable. Various Working Groups that report to the Fair Value Committee analyze and approve the valuation methodologies used to fair value assets and liabilities managed within specific areas. The Working Groups are discussed in more detail in the qualitative disclosures within this footnote and in Note 11 (Acquisitions and Discontinued Operations). Formal documentation of the fair valuation methodologies is prepared by the lines of business and support areas as appropriate. The documentation details the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level, market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements on page 122 of our 2012 Form 10-K.

Qualitative Disclosures of Valuation Techniques

Loans. Most loans recorded as trading account assets are valued based on market spreads for similar assets since they are actively traded. Therefore, these loans are classified as Level 2 because the fair value recorded is based on observable market data for similar assets.

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

¿ Securities are classified as Level 1 when quoted market prices are available in an active market for the identical securities. Level 1 instruments include exchange-traded equity securities.

Table of Contents

¿ Securities are classified as Level 2 if quoted prices for identical securities are not available, and fair value is determined using pricing models (either by a third-party pricing service or internally) or quoted prices of similar securities. These instruments include municipal bonds; bonds backed by the U.S. government; corporate bonds; certain mortgage-backed securities; securities issued by the U.S. Treasury; money markets; and certain agency and corporate CMOs. Inputs to the pricing models include actual trade data (i.e., spreads, credit ratings, and interest rates) for comparable assets, spread tables, matrices, high-grade scales, option-adjusted spreads, and standard inputs, such as yields, benchmark securities, bids, and offers.

¿ Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. In such cases, we use internal models based on certain assumptions to determine fair value. Level 3 instruments consist of certain commercial mortgage-backed securities. Our Real Estate Capital line of business is responsible for the valuation process for these commercial mortgage-backed securities, which is conducted on a quarterly basis. The methodology incorporates a loan-by-loan credit review in combination with discounting the risk-adjusted bond cash flows. A detailed credit review of the underlying loans involves a screening process using a multitude of filters to identify the highest risk loans associated with these commercial mortgage-backed securities. Each of the highest risk loans identified is re-underwritten and loan specific defaults and recoveries are assigned. A matrix approach is used to assign an expected default and recovery percentage for the loans that are not individually re-underwritten. Bond classes will then be run through a discounted cash flow analysis, taking into account the expected default and recovery percentages as well as discount rates developed by our Finance area. Inputs for the Level 3 internal models include expected cash flows from the underlying loans, which take into account expected default and recovery percentages, market research, and discount rates commensurate with current market conditions. Changes in the credit quality of the underlying loans or market discount rate would impact the value of the bonds. An increase in the underlying loan credit quality or decrease in the market discount rate would positively impact the bond value. A decrease in the underlying loan credit quality or increase in the market discount rate would negatively impact the bond value.

The fair values of our Level 2 securities available for sale are determined by a third-party pricing service. The valuations provided by the third-party pricing service are based on observable market inputs, which include benchmark yields, reported trades, issuer spreads, benchmark securities, bids, offers, and reference data obtained from market research publications. Inputs used by the third-party pricing service in valuing CMOs and other mortgage-backed securities also include new issue data, monthly payment information, whole loan collateral performance, and To Be Announced prices. In valuations of state and political subdivisions securities, inputs used by the third-party pricing service also include material event notices.

On a quarterly basis, we validate the pricing methodologies utilized by our third-party pricing service to ensure the fair value determination is consistent with the applicable accounting guidance and that our assets are properly classified in the fair value hierarchy. To perform this validation, we:

¿ review documentation received from our third-party pricing service regarding the inputs used in their valuations and determine a level assessment for each category of securities;

¿ substantiate actual inputs used for a sample of securities by comparing the actual inputs used by our third-party pricing service to comparable inputs for similar securities; and

- substantiate the fair values determined for a sample of securities by comparing the fair values provided by our third-party pricing service to prices from other independent sources for the same and similar securities. We analyze variances and conduct additional research with our third-party pricing service and take appropriate steps based on our findings.

Private equity and mezzanine investments. Private equity and mezzanine investments consist of investments in debt and equity securities through our Real Estate Capital line of business. They include direct investments made in specific properties, as well as indirect investments made in funds that pool assets of many investors to invest in properties. There is no active market for these investments, so we employ other valuation methods.

Private equity and mezzanine investments are classified as Level 3 assets since our judgment significantly influences the determination of fair value. Our Fund Management, Asset Management, and Accounting groups are responsible for reviewing the valuation models and determining the fair value of these investments on a quarterly basis. Direct investments in properties are initially valued based upon the transaction price. This amount is then adjusted to fair value based on current market conditions using the discounted cash flow method based on the expected investment exit date. The fair values of the

Table of Contents

assets are reviewed and adjusted quarterly. Periodically, a third-party appraisal is obtained for the investment to validate the specific inputs for determining fair value.

Inputs used in calculating future cash flows include the cost of build-out, future selling prices, current market outlook, and operating performance of the investment. Investment income and expense assumptions are based on market inputs, such as rental/leasing rates and vacancy rates for the geographic- and property type-specific markets. For investments under construction, investment income and expense assumptions are determined using expected future build-out costs and anticipated future rental prices based on current market conditions, discount rates, holding period, the terminal cap rate and sales commissions paid in the terminal cap year. For investments that are in lease-up or are fully leased, income and expense assumptions are based on the current geographic market lease rates, underwritten expenses, market lease terms, and historical vacancy rates. Asset Management validates these inputs on a quarterly basis through the use of industry publications, third-party broker opinions, and comparable property sales, where applicable. Changes in the significant inputs (rental/leasing rates, vacancy rates, valuation capitalization rate, discount rate, and terminal cap rate) would significantly affect the fair value measurement. Increases in rental/leasing rates would increase fair value while increases in the vacancy rates, the valuation capitalization rate, the discount rate, and the terminal cap rate would decrease fair value.

Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to use statements from the investment manager to calculate net asset value per share. A primary input used in estimating fair value is the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment s fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager.

Investments in real estate private equity funds are included within private equity and mezzanine investments. The main purpose of these funds is to acquire a portfolio of real estate investments that provides attractive risk-adjusted returns and current income for investors. Certain of these investments do not have readily determinable fair values and represent our ownership interest in an entity that follows measurement principles under investment company accounting. The following table presents the fair value of our indirect investments and related unfunded commitments at June 30, 2013:

June 30, 2013

in millions	Fair Value	Unfunded Commitments
INVESTMENT TYPE		
Passive funds [(a)]	$ 14	$ 1
Co-managed funds [(b)]	18	
Total	$ 32	$ 1

(a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds.

Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to seven years.

(b) We are a manager or co-manager of these funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. In addition, we receive management fees. We can sell or transfer our interest in any of these funds with the written consent of a majority of the fund s investors. In one instance, the other co-manager of the fund must consent to the sale or transfer of our interest in the fund. The funds will mature over a period of two to five years.

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), as well as indirect investments (investments made through funds that include other investors).

Each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period s earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (comprised of individuals from one of the independent investment managers who oversee these instruments), members of the Key Principal Partners (KPP) finance and accounting staff, a member of Key s senior management team, and the Investment Committee (comprised of individuals from Key and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

Our direct investments include investments in debt and equity instruments of both private and public companies. When quoted prices are available in an active market for the identical direct investment, we use the quoted prices in the valuation process, and the related investments are classified as Level 1 assets. However, in most cases, quoted market prices are not available for our direct investments, and we must perform valuations using other methods. These direct investment valuations are an in-depth analysis of the condition of each investment and are based on the unique facts and circumstances related to each individual investment. There is a certain amount of subjectivity surrounding the valuation of these investments due to the combination of quantitative and qualitative factors that are used in the valuation models. Therefore, these direct investments are classified as Level 3 assets. The specific inputs used in the valuations of each type of direct investment are described below.

Interest-bearing securities (i.e., loans) are valued on a quarterly basis. Valuation adjustments are determined by the Principal Investing Entities Deal Team and are subject to approval by the Investment Committee. Valuations of debt instruments are based on the Principal Investing Entities Deal Team s knowledge of the current financial status of the subject company, which is regularly monitored throughout the term of the investment. Significant unobservable inputs used in the valuations of these investments include the company s payment history, adequacy of cash flows from operations, and current operating results, including market multiples, and historical and forecast earnings before interest, taxation, depreciation, and amortization. Inputs can also include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected and the net liquidation value of collateral.

Valuations of equity instruments of private companies, which are prepared on a quarterly basis, are based on current market conditions and the current financial status of each company. A valuation analysis is performed to value each investment that is reviewed by the Principal Investing Entities Deal Team Member as well as reviewed and approved by the Chief Administrative Officer of one of the independent investment managers. Significant unobservable inputs used in these valuations include adequacy of the company s cash flows from operations, any significant change in the company s performance since the prior valuation, and any significant equity issuances by the company. Equity instruments of public companies are valued using quoted prices in an active market for the identical security. If the instrument is restricted, the fair value is determined considering the number of shares traded daily, the number of the company s total restricted shares, and price volatility.

Our indirect investments are classified as Level 3 assets since our significant inputs are not observable in the marketplace. Indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the capital accounts as reported by the general partners of the funds in which we invest.

For indirect investments, management makes adjustments as deemed appropriate to the net asset value and only if it is determined that the net asset value does not properly reflect fair value. In determining the need for an adjustment to net asset value, management performs an analysis of the private equity funds based on the independent fund manager s valuations as well as management s own judgment. Significant unobservable inputs used in these analyses include current fund financial information provided by the fund manager, an estimate of future proceeds expected to be received on the investment, and market multiples. Management also considers whether the independent fund manager adequately marks down an impaired investment, maintains financial statements in accordance with GAAP, or follows a practice of holding all investments at cost.

The fair value of our indirect investments and related unfunded commitments at June 30, 2013, was $426 million and $84 million, respectively. Our indirect investments consist of buyout, venture capital, and fund of funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds can be sold only with the approval of the fund s general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to nine years.

Derivatives. Exchange-traded derivatives are valued using quoted prices and, therefore, are classified as Level 1 instruments. However, only a few types of derivatives are exchange-traded. The majority of our derivative positions are valued using internally developed models based on market convention that use observable market inputs, such as interest rate curves, yield curves, LIBOR and Overnight Index Swap (OIS) discount rates and curves, index pricing curves, foreign currency curves, and volatility surfaces (a three-dimensional graph of implied volatility against strike price and maturity). These derivative contracts, which are classified as Level 2 instruments, include interest rate swaps, certain options, cross currency swaps, and credit default swaps.

In addition, we have several customized derivative instruments and risk participations that are classified as Level 3 instruments. These derivative positions are valued using internally developed models, with inputs consisting of available market data, such as bond spreads and asset values, as well as unobservable internally-derived assumptions, such as loss probabilities and internal risk ratings of customers. These derivatives are priced monthly by our Market Risk Management group using a credit valuation adjustment methodology. Swap details with the customer and our related participation percentage, if applicable, are obtained from our derivatives accounting system, which is the system of record. Applicable customer rating information is obtained from the particular loan system and represents an unobservable input to this valuation process. Using these various inputs, a valuation of these Level 3 derivatives is performed using a model that was acquired from a third party. In summary, the fair value represents an estimate of the amount that the risk participation counterparty would need to pay/receive as of the measurement date based on the probability of customer default on the swap transaction and the fair value of the underlying customer swap. Therefore, a higher loss probability and a lower credit rating would negatively affect the fair value of the risk participations and a lower loss probability and higher credit rating would positively affect the fair value of the risk participations.

Market convention implies a credit rating of AA equivalent in the pricing of derivative contracts, which assumes all counterparties have the same creditworthiness. To reflect the actual exposure on our derivative contracts related to both counterparty and our own creditworthiness, we record a fair value adjustment in the form of a default reserve. The credit component is determined by individual counterparty based on the probability of default, and considers master netting and collateral agreements. The default reserve is classified as Level 3. Our Market Risk Management group is responsible for the valuation policies and procedure related to this default reserve. A weekly reconciliation process is performed to ensure that all applicable derivative positions are covered in the calculation, which includes transmitting customer exposures and reserve reports to trading management, derivative traders and marketers, derivatives middle office, and corporate accounting personnel. On a quarterly basis, Market Risk Management prepares the reserve calculation. A detailed reserve comparison with the previous quarter, an analysis for change in reserve, and a reserve forecast are provided by Market Risk Management to ensure that the default reserve recorded at period end is sufficient.

Other assets and liabilities. The value of our repurchase and reverse repurchase agreements, trade date receivables and payables, and short positions is driven by the valuation of the underlying securities. The underlying securities may include equity securities, which are valued using quoted market prices in an active market for identical securities, resulting in a Level 1 classification. If quoted prices for identical securities are not available, fair value is determined by using pricing models or quoted prices of similar securities, resulting in a Level 2 classification. For the interest rate-driven products, such as government bonds, U.S. Treasury bonds and other products backed by the U.S. government, inputs include spreads, credit ratings and interest rates. For the credit-driven products, such as corporate bonds and mortgage-backed securities, inputs include actual trade data for comparable assets, and bids and offers.

Table of Contents

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at June 30, 2013, December 31, 2012 and June 30, 2012.

June 30, 2013

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short-term investments:				
Securities purchased under resale agreements		$ 334		$ 334
Trading account assets:				
U.S. Treasury, agencies and corporations		375		375
States and political subdivisions		28		28
Collateralized mortgage obligations		38		38
Other mortgage-backed securities		67		67
Other securities	$ 3	71		74
Total trading account securities	3	579		582
Commercial loans		10		10
Total trading account assets	3	589		592
Securities available for sale:				
States and political subdivisions		44		44
Collateralized mortgage obligations		12,603		12,603
Other mortgage-backed securities		584		584
Other securities	22			22
Total securities available for sale	22	13,231		13,253
Other investments:				
Principal investments:				
Direct			$ 186	186
Indirect			426	426

Total principal investments						612		612
Equity and mezzanine investments:								
Direct								
Indirect						32		32
Total equity and mezzanine investments						32		32
Total other investments						644		644
Derivative assets:								
Interest rate				1,203		25		1,228
Foreign exchange		85		15				100
Energy and commodity				117		2		119
Credit				2		4		6
Equity								
Derivative assets		85		1,337		31		1,453
Netting adjustments[(a)]								(992)
Total derivative assets		85		1,337		31		461
Accrued income and other assets		7		34				41
Total assets on a recurring basis at fair value	$	117	$	15,525	$	675	$	15,325
LIABILITIES MEASURED ON A RECURRING BASIS								
Federal funds purchased and securities sold under repurchase agreements:								
Securities sold under repurchase agreements			$	351			$	351
Bank notes and other short-term borrowings:								
Short positions	$	4		294				298
Derivative liabilities:								
Interest rate				871				871
Foreign exchange		78		15				93
Energy and commodity				113	$	1		114
Credit				11				11
Equity								
Derivative liabilities		78		1,010		1		1,089
Netting adjustments[(a)]								(633)
Total derivative liabilities		78		1,010		1		456
Accrued expense and other liabilities				2				2

Total liabilities on a recurring basis at fair value	$	82	$	1,657	$	1	$	1,107

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral. Total derivative assets and liabilities include these netting adjustments.

.

Table of Contents

December 31, 2012

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short term investments:				
Securities purchased under resale agreements		$ 271		$ 271
Trading account assets:				
U.S. Treasury, agencies and corporations		383		383
States and political subdivisions		21	$ 3	24
Collateralized mortgage obligations		8		8
Other mortgage-backed securities		4		4
Other securities	$ 2	175		177
Total trading account securities	2	591	3	596
Commercial loans		9		9
Total trading account assets	2	600	3	605
Securities available for sale:				
States and political subdivisions		49		49
Collateralized mortgage obligations		11,464		11,464
Other mortgage-backed securities		538		538
Other securities	43			43
Total securities available for sale	43	12,051		12,094
Other investments:				
Principal investments:				
Direct			191	191
Indirect			436	436
Total principal investments			627	627
Equity and mezzanine investments:				
Direct				
Indirect			41	41
			41	41

Total equity and mezzanine investments				
Total other investments			668	668
Derivative assets:				
Interest rate		1,705	19	1,724
Foreign exchange	54	21		75
Energy and commodity		154	2	156
Credit		3	5	8
Equity				
Derivative assets	54	1,883	26	1,963
Netting adjustments [a]				(1,270)
Total derivative assets	54	1,883	26	693
Accrued income and other assets		3		3
Total assets on a recurring basis at fair value	$ 99	$ 14,808	$ 697	$ 14,334
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 228		$ 228
Bank notes and other short-term borrowings:				
Short positions		287		287
Derivative liabilities:				
Interest rate		1,152		1,152
Foreign exchange	$ 55	20		75
Energy and commodity		149	$ 1	150
Credit		9	1	10
Equity				
Derivative liabilities	55	1,330	2	1,387
Netting adjustments [a]				(803)
Total derivative liabilities	55	1,330	2	584
Accrued expense and other liabilities		49		49
Total liabilities on a recurring basis at fair value	$ 55	$ 1,894	$ 2	$ 1,148

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral. Total derivative assets and liabilities include these netting adjustments.

Table of Contents

June 30, 2012

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short term investments:				
Securities purchased under resale agreements		$ 338		$ 338
Trading account assets:				
U.S. Treasury, agencies and corporations		438		438
States and political subdivisions		27	$ 57	84
Collateralized mortgage obligations		16		16
Other mortgage-backed securities		100	1	101
Other securities	$ 3	37		40
Total trading account securities	3	618	58	679
Commercial loans				
Total trading account assets	3	618	58	679
Securities available for sale:				
States and political subdivisions		56		56
Collateralized mortgage obligations		12,477		12,477
Other mortgage-backed securities		652		652
Other securities	20			20
Total securities available for sale	20	13,185		13,205
Other investments:				
Principal investments:				
Direct	11		231	242
Indirect			482	482
Total principal investments	11		713	724
Equity and mezzanine investments:				
Direct			18	18
Indirect			43	43
Total equity and mezzanine investments			61	61
Total other investments	11		774	785
Derivative assets:				
Interest rate		1,824	35	1,859
Foreign exchange	81	26		107
Energy and commodity		209		209
Credit		19	6	25
Equity				
Derivative assets	81	2,078	41	2,200

Netting adjustments [a]				(1,382)
Total derivative assets	81	2,078	41	818
Accrued income and other assets	2	134		136
Total assets on a recurring basis at fair value	$ 117	$ 16,353	$ 873	$ 15,961
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 481		$ 481
Bank notes and other short-term borrowings:				
Short positions	$ 3	360		363
Derivative liabilities:				
Interest rate		1,310		1,310
Foreign exchange	81	24		105
Energy and commodity		203	$ 1	204
Credit		23	1	24
Equity				
Derivative liabilities	81	1,560	2	1,643
Netting adjustments [a]				(880)
Total derivative liabilities	81	1,560	2	763
Accrued expense and other liabilities		4		4
Total liabilities on a recurring basis at fair value	$ 84	$ 2,405	$ 2	$ 1,611

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral. Total derivative assets and liabilities include these netting adjustments.

Table of Contents

Changes in Level 3 Fair Value Measurements

The following table shows the change in the fair values of our Level 3 financial instruments for the three and six months ended June 30, 2013, and 2012. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table. Therefore, the gains or losses shown do not include the impact of our risk management activities.

in millions	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 (e)	Transfers out of Level 3 (e)	End of Period Balance (g)	Unrealized Gains (Losses) Included in Earnings
Six months ended June 30, 2013									
Trading account assets									
Other mortgage-backed securities		$ 4 (b)		$ (4)					
Other securities		3 (b)			$ (3)				$ 1 (b)
State and political subdivisions	$ 3			(3)					
Other investments									
Principal investments									
Direct	191	(5) (c)	$ 4	(4)				$ 186	(11) (c)
Indirect	436	19 (c)	11	(40)				426	4 (c)
Equity and mezzanine investments									
Direct									3 (c)
Indirect	41	2 (c)			(11)			32	2 (c)
Derivative instruments[(a)]									
Interest rate	19	(3) (d)		(1)		$ 39 (f)	$ (29) (f)	25	
Energy and commodity	1							1	
Credit	4	(3) (d)			3			4	

Three months ended June 30, 2013									
Trading account assets									
Other mortgage-backed securities									
Other securities		$ 2 (b)			$ (2)				
State and political subdivisions	$ 3			$ (3)					
Other investments									
Principal investments									
Direct	191	(1) (c)		(4)				$ 186	$ (7) (c)
Indirect	435	7 (c)	$ 5	(21)				426	
Equity and mezzanine investments									
Direct									
Indirect	39	2 (c)			(9)			32	2 (c)
Derivative instruments[(a)]									
Interest rate	27					$ 25 (f)	$ (27) (f)	25	
Energy and commodity	4	(3) (d)						1	
Credit	4	(2) (d)			2			4	

39

Table of Contents

	Beginning of Period Balance	Gains (Losses) Included in Earnings	Purchases	Sales	Settlements	Transfers into Level 3 (e)	Transfers out of Level 3 (e)	End of Period Balance (g)	U I
0,									
nt									
ked	$ 35	$ 2 (b)		$ (32)			$ (4)	$ 1	
ical		(2) (b)			$ 2	$ 57		57	
	225	8 (c)	$ 10	(12)				231	
	473	43 (c)	20	(54)				482	
	15	3						18	
	36	6 (c)	4		(3)	$		43	
	38	(3) (d)	1	(1)		4	(4)	35	
	(1)							(1)	
	(21)	(7) (d)			33			5	
s **0,**									
nt									
ked	$ 1	(b)						$ 1	
ical		$ (5) (b)			$ 5	$ 57		57	

226	7	(c)	$ 9	$ (11)				231
485	20	(c)	10	(33)				482
15	3							18
42	5	(c)	1		(2)	(3)		43
36	2	(d)					$ (3)	35
(1)								(1)
5	(2)	(d)			2			5

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

(b) Realized and unrealized gains and losses on trading account assets are reported in other income on the income statement.

(c) Realized and unrealized gains and losses on principal investments and private equity and mezzanine investments are reported in net gains (losses) from principal investing on the income statement.

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

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

(f) Transfers from Level 2 to Level 3 were the result of Level 3 unobservable inputs becoming significant to certain derivatives previously classified as Level 2. Transfers from Level 3 to Level 2 were the result of Level 3 unobservable inputs becoming less significant to certain derivatives previously classified as Level 3.

(g) There were no issuances for the six-month periods ended June 30, 2013 and 2012.

Assets 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. The following table presents our assets measured at fair value on a nonrecurring basis at June 30, 2013, December 31, 2012, and June 30, 2012:

40

Table of Contents

in millions	June 30, 2013 Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			**$ 22**	**$ 22**
Loans held for sale [(a)]				
Accrued income and other assets			**16**	**16**
Total assets on a nonrecurring basis at fair value			**$ 38**	**$ 38**

in millions	December 31, 2012 Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			$ 25	$ 25
Loans held for sale			9	9
Accrued income and other assets		$ 2	20	22
Total assets on a nonrecurring basis at fair value		$ 2	$ 54	$ 56

in millions	June 30, 2012 Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A NONRECURRING BASIS				
Impaired loans			$ 81	$ 81
Loans held for sale			15	15
Accrued income and other assets		$ 17	25	42
Total assets on a nonrecurring basis at fair value		$ 17	$ 121	$ 138

(a) During the first half of 2013, we transferred $2 million of commercial and consumer loans and leases from held-for-sale status to the held-to-maturity portfolio at their current fair value.

Impaired loans. We typically adjust the carrying amount of our impaired loans when there is evidence of probable loss and the expected fair value of the loan is less than its contractual amount. The amount of the impairment may be determined based on the estimated present value of future cash flows, the fair value of the underlying collateral, or the loan s observable market price. Impaired loans with a specifically allocated allowance based on cash flow analysis or the value of the underlying collateral are classified as Level 3 assets, while those with a specifically allocated allowance based on an observable market price that reflects recent sale transactions for similar loans and collateral are classified as Level 2.

The evaluations for impairment are prepared by the responsible relationship managers in our Asset Recovery Group and are reviewed and approved by the Asset Recovery Group Executive. The Asset Recovery Group is part of the Risk Management Group and reports to our Chief Risk Officer. These evaluations are performed in conjunction with the quarterly ALLL process.

Subject loans are evaluated for impairment on a quarterly basis. Loans included in the previous quarter s review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and in most cases, collateral value) is compared. Material differences are evaluated for reasonableness, and discussions are held between the relationship managers and their senior managers to understand the difference and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values.

The following two internal methods are used to value impaired loans:

- ¿ Cash flow analysis considers internally developed inputs, such as discount rates, default rates, costs of foreclosure and changes in collateral values.

- ¿ The fair value of the collateral, which may take the form of real estate or personal property, is based on internal estimates, field observations and assessments provided by third-party appraisers. We perform or reaffirm appraisals of collateral-dependent impaired loans at least annually. Appraisals may occur more frequently if the most recent appraisal does not accurately reflect the current market, the debtor is seriously delinquent or chronically past due, or there has been a material deterioration in the performance of the project or condition of the property. Adjustments

Table of Contents

to outdated appraisals that result in an appraisal value less than the carrying amount of a collateral-dependent impaired loan are reflected in the ALLL.

Impairment valuations are back-tested each quarter, based on a look-back of actual incurred losses on closed deals previously evaluated for impairment. The overall percent variance of actual net charge-offs on closed deals as compared to the specific allocations on such deals is considered in determining each quarter s specific allocations.

Loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming loans, we determined that adjustments were necessary to record some of the portfolios at the lower of cost or fair value in accordance with GAAP. There were no loans held for sale portfolios adjusted to fair value at June 30, 2013. Loans held for sale portfolios adjusted to fair value totaled $9 million at December 31, 2012, and $15 million at June 30, 2012.

Current market conditions, including updated collateral values, and reviews of our borrowers financial condition influenced the inputs used in our internal models and other valuation methodologies, resulting in these adjustments. The valuations are prepared by the responsible relationship managers or analysts in our Asset Recovery Group and are reviewed and approved by the Asset Recovery Group Executive. Actual gains or losses realized on the sale of various loans held for sale provide a back-testing mechanism for determining the appropriateness of our valuations of these loans held for sale that are adjusted to fair value.

Valuations of performing commercial mortgage and construction loans held for sale are conducted using internal models that rely on market data from sales or nonbinding bids on similar assets, including credit spreads, treasury rates, interest rate curves and risk profiles, as well as our own assumptions about the exit market for the loans and details about individual loans within the respective portfolios. Therefore, we have classified these loans as Level 3 assets. The inputs related to our assumptions and other internal loan data include changes in real estate values, costs of foreclosure, prepayment rates, default rates and discount rates.

Valuations of nonperforming commercial mortgage and construction loans held for sale are based on current agreements to sell the loans or approved discounted payoffs. If a negotiated value is not available, we use third-party appraisals, adjusted for current market conditions. Since valuations are based on unobservable data, these loans have been classified as Level 3 assets.

Direct financing leases and operating lease assets held for sale. Our Key Equipment Finance (KEF) Accounting and Capital Markets groups are responsible for the valuation policies and procedures related to these assets. The Managing Director of the KEF Capital Markets group reports to the President of our Equipment Finance line of business. A weekly report is distributed to both groups that lists all Equipment Finance deals booked in the warehouse portfolio. On a quarterly basis, the KEF Accounting group prepares a detailed held-for-sale roll-forward schedule that is reconciled to the general ledger and the above mentioned weekly report. KEF management uses the held-for-sale roll-forward schedule to determine if an impairment adjustment is necessary in accordance with lower of cost or fair value guidelines.

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. Leases also may be valued using current nonbinding bids when they are available. These leases are classified as Level 2 assets. In a distressed market where market data is not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. KEF

Accounting calculates an estimated fair value buy rate based on the credit premium inherent in the relevant bond index and the appropriate swap rate on the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

Goodwill and other intangible assets. On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of the goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. New accounting guidance that permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required became effective for us on January 1, 2012. We did not choose to utilize this qualitative assessment in our annual goodwill impairment testing performed during the fourth quarter of 2012. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (using publicly traded company and recent transactions data), which are weighted equally.

Inputs used include market-available data, such as industry, historical and expected growth rates, and peer valuations, as well as internally driven inputs, such as forecasted earnings and market participant insights. Since this valuation relies on a significant number of unobservable inputs, we have classified goodwill as Level 3. We use a third party valuation services provider to perform the annual, and if necessary, any interim, Step 1 valuation process, and to perform a Step 2 analysis, if needed, on our reporting units. Annual and any interim valuations prepared by the third-party valuation services provider are reviewed by the appropriate individuals within Key to ensure that the assumptions used in preparing the analysis are appropriate and properly supported. For additional information on the results of recent goodwill impairment testing, see Note 10 (Goodwill and Other Intangible Assets) on page on 171 of our 2012 Form 10-K.

The fair value of other intangible assets is calculated using a cash flow approach. While the calculation to test for recoverability uses a number of assumptions that are based on current market conditions, the calculation is based primarily on unobservable assumptions. Accordingly, these assets are classified as Level 3. Our lines of business, with oversight from our Accounting group, are responsible for routinely, at least quarterly, assessing whether impairment indicators are present. All indicators that signal impairment may exist are appropriately considered in this analysis. An impairment loss is only recognized for a held and used long lived asset if the sum of its estimated future undiscounted cash flows used to test for recoverability is less than its carrying value.

Our primary assumptions include attrition rates, alternative costs of funds and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10 (Goodwill and Other Intangible Assets) on page on 171 of our 2012 Form 10-K.

Other assets. OREO and other repossessed properties are valued based on inputs such as appraisals and third-party price opinions, less estimated selling costs. Generally, we classify these assets as Level 3, but OREO and other repossessed properties for which we receive binding purchase agreements are classified as Level 2. Returned lease inventory is valued based on market data for similar assets and is classified as Level 2. Assets that are acquired through, or in lieu of, loan foreclosures are recorded initially as held for sale at fair value less estimated selling costs at the date of foreclosure. After foreclosure, valuations are updated periodically, and current market conditions may require the assets to be marked down further to a new cost basis.

¿ Commercial Real Estate Valuation Process: When a loan is reclassified from loan status to OREO because we took possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third party sources, our OREO group also writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the current balance of the particular OREO asset. The fair value of OREO property is re-evaluated every 90 days and the OREO asset is adjusted as necessary.

¿ Consumer Real Estate Valuation Process: The Asset Management team within our Risk Operations group is responsible for valuation policies and procedures in this area. The current vendor partner provides monthly reporting of all broker price opinion evaluations, appraisals and the monthly market plans. Market plans are reviewed monthly, and valuations are reviewed and tested monthly to ensure proper pricing has been established and guidelines are being met. Risk Operations Compliance validates and provides periodic testing of the valuation process. The Asset Management team reviews changes in fair value measurements. The current vendor partner managed brokers review pricing monthly, while third-party broker price opinions are reviewed every 90 days, and the fair value is written down based on changes to the valuation. External factors are documented and monitored as appropriate.

Mortgage servicing assets are valued based on inputs such as prepayment speeds, earn rates, credit default rates, discount rates and servicing advances. We classify these assets as Level 3. Additional information regarding the valuation of mortgage servicing assets is provided in Note 8 (Mortgage Servicing Assets).

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 June 30, 2013, December 31, 2012, and June 30, 2012, along with the valuation techniques used, are shown in the following table:

June 30, 2013 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 186	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	5.80 - 6.00% (6.00%)
Equity instruments of private companies			EBITDA multiple (where applicable)	4.50 - 6.00% (5.80%)
			Revenue multiple (where applicable)	1.00 - 4.80% (4.30%)
Nonrecurring				
Impaired loans	22	Fair value of underlying collateral	Discount	0.00 - 100.00% (34.00%)
Goodwill	979	Discounted cash flow and market data	Earnings multiple of peers	9.70 - 14.20 (11.25)
			Equity multiple of peers	.95 - 1.17 (1.09)
			Control premium	N/A (30.00%)
			Weighted-average cost of capital	N/A (13.00%)

December 31, 2012 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments	$ 181	Individual analysis of the condition		

direct:		of each investment		
Debt instruments			EBITDA multiple	5.50 - 6.00% (5.90%)
Equity instruments of private companies			EBITDA multiple (where applicable)	5.00 - 8.50% (6.10%)
			Revenue multiple (where applicable)	0.30 - 5.70% (4.80%)
Nonrecurring				
Impaired loans	25	Fair value of underlying collateral	Discount	0.00 - 100.00% (45.00%)
Goodwill	979	Discounted cash flow and market data	Earnings multiple of peers	9.70 - 14.20 (11.25)
			Equity multiple of peers	.95 - 1.17 (1.09)
			Control premium	N/A (30.00%)
			Weighted-average cost of capital	N/A (13.00%)

June 30, 2012 *dollars in millions*	**Fair Value of Level 3 Assets**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Recurring				
Other investments principal investments direct:	$ 220	Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	4.8 - 8.2% (6.1%)
Equity instruments of private companies			EBITDA multiple (where applicable)	5.50 - 12.00% (6.3%)
			Revenue multiple (where applicable)	0.20 - 4.4% (2.8%)
Nonrecurring				
Impaired loans	81	Fair value of underlying collateral	Discount	0.00 - 100.00% (32.00%)
Goodwill	917	Discounted cash flow and market data	Earnings multiple of peers	8.30 - 11.90 (10.01)
			Equity multiple of peers	1.21 - 1.32 (1.27)
			Control premium	N/A (32.00%)
			Weighted-average cost of capital	N/A (15.00%)

44

Table of Contents

Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at June 30, 2013, December 31, 2012, and June 30, 2012 are shown in the following table.

	June 30, 2013					
		Fair Value				
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total
ASSETS						
Cash and short-term investments [a]	$ 4,278	$ 3,944	$ 334			$ 4,278
Trading account assets [e]	592	3	589			592
Securities available for sale [e]	13,253	22	13,231			13,253
Held-to-maturity securities [b]	4,750		4,716			4,716
Other investments [e]	1,037		393	$ 644		1,037
Loans, net of allowance [c]	52,405			51,019		51,019
Loans held for sale [e]	402			402		402
Mortgage servicing assets [d]	330			387		387
Derivative assets [e]	461	85	1,337	31	$ (992) [f]	461
LIABILITIES						
Deposits with no stated maturity [a]	$ 60,170		$ 60,170			$ 60,170
Time deposits [d]	7,551	545	7,127			7,672
Short-term borrowings [a]	1,945	$ 4	1,941			1,945
Long-term debt [d]	6,666	6,247	784			7,031
Derivative liabilities [e]	456	78	1,010	$ 1	$ (633) [f]	456

		December 31, 2012				
		Fair Value				
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total
ASSETS						
Cash and short-term investments [a]	$ 4,525	$ 4,254	$ 271			$ 4,525
Trading account assets [e]	605	2	600	$ 3		605
Securities available for sale [e]	12,094	43	12,051			12,094
Held-to-maturity securities [b]	3,931		3,992			3,992
Other investments [e]	1,064		396	668		1,064
Loans, net of allowance [c]	51,934			51,046		51,046
Loans held for sale [e]	599			599		599
Mortgage servicing assets [d]	204			238		238
Derivative assets [e]	693	54	1,883	26	$ (1,270) [f]	693
LIABILITIES						
Deposits with no stated maturity [a]	$ 58,132		$ 58,132			$ 58,132
Time deposits [d]	7,861	$ 408	7,612			8,020
Short-term borrowings [a]	1,896		1,896			1,896
Long-term debt [d]	6,847	2,807	4,585			7,392
Derivative liabilities [e]	584	54	1,331	$ 2	$ (803) [f]	584

45

Table of Contents

		June 30, 2012				
				Fair Value		
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total
ASSETS						
Cash and short-term investments (a)	$ 2,933	$ 2,595	$ 338			$ 2,933
Trading account assets (e)	679	3	618	$ 58		679
Securities available for sale (e)	13,205	20	13,185			13,205
Held-to-maturity securities (b)	4,352		4,396			4,396
Other investments (e)	1,186	11	401	774		1,186
Loans, net of allowance (c)	48,717			47,912		47,912
Loans held for sale (e)	656			656		656
Mortgage servicing assets (d)	186			237		237
Derivative assets (e)	818	81	2,078	41	$ (1,382) (f)	818
LIABILITIES						
Deposits with no stated maturity (a)	$ 52,495		$ 52,495			$ 52,495
Time deposits (d)	9,672	$ 617	9,271			9,888
Short-term borrowings (a)	2,078	3	2,075			2,078
Long-term debt (d)	7,521	3,890	3,955			7,845
Derivative liabilities (e)	763	81	1,560	$ 2	$ (880) (f)	763

Valuation Methods and Assumptions

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

(b) Fair values of held-to-maturity securities are determined by using models that are based on security-specific details, as well as relevant industry and economic factors. The most significant of these inputs are quoted market prices, interest rate spreads on relevant benchmark securities, and certain prepayment assumptions. We review the valuations derived from the models to ensure they are reasonable and consistent with the values placed on similar securities traded in the secondary markets.

(c) The fair value of loans is based on the present value of the expected cash flows. The projected cash flows are based on the contractual terms of the loans, adjusted for prepayments and use of a discount rate based on the relative risk of the cash flows, taking into account the loan type, maturity of the loan, liquidity risk, servicing costs, and a required return on debt and capital. In addition, an incremental liquidity discount is applied to certain loans, using historical sales of loans during periods of similar economic conditions as a benchmark. The fair value of loans includes lease financing receivables at their aggregate carrying amount, which is equivalent to their fair value.

(d) Fair values of mortgage servicing assets, time deposits and long-term debt are based on discounted cash flows utilizing relevant market inputs.

(e) Information pertaining to our methodology for measuring the fair values of these assets and liabilities is included in the sections entitled Qualitative Disclosures of Valuation Techniques and Assets Measured at Fair Value on a Nonrecurring Basis in this note.

(f) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with applicable accounting guidance. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral. Total derivative assets and liabilities include these netting adjustments.

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. We determine fair value based on assumptions pertaining to the factors a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2012 and through the first half of 2013, the fair values of our loan portfolios have improved, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change. If a nonexit price methodology were used for valuing our loan portfolio for continuing operations, it would result in a premium of 1.37%. Also, because the applicable accounting guidance for financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table above do not, by themselves, represent the underlying value of our company as a whole.

Education lending business. The discontinued education lending business consists of assets and liabilities (recorded at fair value) in the securitization trusts, as well as loans in portfolio (recorded at fair value), and loans in portfolio (recorded at carrying value with appropriate valuation reserves) that are outside the trusts. All of these loans were excluded from the table above as follows:

¿ Loans at carrying value, net of allowance, of $2.2 billion ($2.1 billion at fair value) at June 30, 2013, $2.6 billion ($2.3 billion at fair value) at December 31, 2012, and $2.8 billion ($2.4 billion at fair value) at June 30, 2012;

¿ Portfolio loans at fair value of $151 million at June 30, 2013, $157 million at December 31, 2012, and $73 million at June 30, 2012;

¿ Loans in the trusts at fair value of $2.3 billion at June 30, 2013, $2.4 billion at December 31, 2012, and $2.6 billion at June 30, 2012.

Securities issued by the education lending securitization trusts, which are the primary liabilities of the trusts, totaling $2.1 billion in fair value at June 30, 2013, $2.2 billion in fair value at December 31, 2012, and $2.4 billion in fair value at June 30, 2012 are also excluded from the above table.

These loans and securities are classified as Level 3 because we rely on unobservable inputs when determining fair value since observable market data is not available.

Residential real estate mortgage loans. Residential real estate mortgage loans with carrying amounts of $2.2 billion at June 30, 2013 and December 31, 2012, and $2 billion at June 30, 2012 are included in Loans, net of allowance in the above table.

Short-term financial instruments. For financial instruments with a remaining average life to maturity of less than six months, carrying amounts were used as an approximation of fair values.

Table of Contents

6. Securities

Securities available for sale. These are securities that we intend to hold for an indefinite period of time but that may be sold in response to changes in interest rates, prepayment risk, liquidity needs or other factors. Securities available for sale are reported at fair value. Unrealized gains and losses (net of income taxes) deemed temporary are recorded in equity as a component of AOCI on the balance sheet. Unrealized losses on equity securities deemed to be other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method, are included in other income on the income statement. Unrealized losses on debt securities deemed to be other-than-temporary are included in other income on the income statement or AOCI in accordance with the applicable accounting guidance related to the recognition of OTTI of debt securities.

Other securities held in the available-for-sale portfolio are primarily marketable equity securities that are traded on a public exchange such as the NYSE or NASDAQ.

Held-to-maturity securities. These are debt securities that we have the intent and ability to hold until maturity. Debt securities are carried at cost and adjusted for amortization of premiums and accretion of discounts using the interest method. This method produces a constant rate of return on the adjusted carrying amount.

Other securities held in the held-to-maturity portfolio consist of foreign bonds and capital securities.

Unrealized losses on equity securities deemed to be other-than-temporary, and realized gains and losses resulting from sales of securities using the specific identification method, are included in other income on the income statement. Unrealized losses on debt securities deemed to be other-than-temporary are included in other income on the income statement or AOCI in accordance with the applicable accounting guidance related to the recognition of OTTI of debt 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

in millions	June 30, 2013 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	**$ 43**	**$ 1**		**$ 44**
Collateralized mortgage obligations	**12,503**	**213**	**$ 113**	**12,603**
Other mortgage-backed securities	**555**	**32**	**3**	**584**
Other securities	**19**	**3**		**22**
Total securities available for sale	**$ 13,120**	**$ 249**	**$ 116**	**$ 13,253**
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	**$ 4,732**	**$ 16**	**$ 50**	**$ 4,698**
Other securities	**18**			**18**
Total held-to-maturity securities	**$ 4,750**	**$ 16**	**$ 50**	**$ 4,716**

in millions	December 31, 2012 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 47	$ 2		$ 49
Collateralized mortgage obligations	11,148	316		11,464
Other mortgage-backed securities	491	47		538
Other securities	42	1		43
Total securities available for sale	$ 11,728	$ 366		$ 12,094
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	$ 3,913	$ 61		$ 3,974
Other securities	18			18

Total held-to-maturity securities	$	3,931	$	61			$	3,992

	June 30, 2012							
in millions		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**
SECURITIES AVAILABLE FOR SALE								
States and political subdivisions	$	53	$	3			$	56
Collateralized mortgage obligations		12,098		379				12,477
Other mortgage-backed securities		597		55				652
Other securities		20		1	$	1		20
Total securities available for sale	$	12,768	$	438	$	1	$	13,205
HELD-TO-MATURITY SECURITIES								
Collateralized mortgage obligations	$	4,334	$	44			$	4,378
Other securities		18						18
Total held-to-maturity securities	$	4,352	$	44			$	4,396

Table of Contents

The following table summarizes our securities that were in an unrealized loss position as of June 30, 2013, December 31, 2012, and June 30, 2012.

	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
ons	Fair Value	Gross Unrealized Losses (a)	Fair Value	Gross Unrealized Losses (b)	Fair Value	Gross Unrealize Losse
), 2013						
es available for sale:						
d political divisions						
ralized mortgage obligations	$ 5,412	$ 113			$ 5,412	$ 11
nortgage-backed securities	152	3			152	
ecurities	3				3	
-maturity:						
ralized mortgage obligations	**2,998**	**50**			**2,998**	**5**
mporarily impaired es	**$ 8,565**	**$ 166**			**$ 8,565**	**$ 16**
ber 31, 2012						
es available for sale:						
ecurities	$ 31		$ 3		$ 34	
mporarily impaired es	$ 31		$ 3		$ 34	
), 2012						
es available for sale:						
ralized mortgage obligations	$ 1				$ 1	
ecurities	12	$ 1			12	$
-maturity:						
ralized mortgage obligations	200				200	
mporarily impaired es	$ 213	$ 1			$ 213	$

(a) There were less than $1 million of gross unrealized losses for the period ended December 31, 2012.
(b) There were less than $1 million of gross unrealized losses for the period ended June 30, 2013, December 31, 2012 and June 30, 2012.

At June 30, 2013, we had $113 million of gross unrealized losses related to 53 fixed-rate collateralized mortgage obligations that were invested in as part of our overall A/LM strategy. These securities have a weighted-average maturity of 4.2 years at June 30, 2013. Since these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. We also had $3 million of gross unrealized losses related to other mortgage-backed securities, which have a weighted-average maturity of 4.9 years at June 30, 2013.These unrealized losses are considered temporary since we expect to collect all contractually due amounts from these securities. Accordingly, these investments have been reduced to their fair value through OCI, not earnings.

We regularly assess our securities portfolio for OTTI. The assessments are based on the nature of the securities, the underlying collateral, the financial condition of the issuer, the extent and duration of the loss, our intent related to the individual securities, and the likelihood that we will have to sell securities prior to expected recovery.

The debt securities identified to have OTTI are written down to their current fair value. For those debt securities that we intend to sell, or more-likely-than-not will be required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component of AOCI on the balance sheet. As shown in the following table, we did not have any impairment losses recognized in earnings for the three months ended June 30, 2013.

Table of Contents

Three months ended June 30, 2013 *in millions*		
Balance at March 31, 2013	$	4
Impairment recognized in earnings		
Balance at June 30, 2013	$	4

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

Six months ended June 30, 2013 *in millions*
Realized gains
Realized losses
Net securities gains (losses)

At June 30, 2013, securities available for sale and held-to-maturity securities totaling $12 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

The following table shows securities by remaining maturity. CMOs and other mortgage-backed securities (both of which are included in the securities available-for-sale portfolio) as well the CMOs in the held-to-maturity portfolio are presented based on their expected average lives. The remaining securities, in both the available-for-sale and held-to-maturity portfolios, are presented based on their remaining contractual maturity. Actual maturities may differ from expected or contractual maturities since borrowers have the right to prepay obligations with or without prepayment penalties.

June 30, 2013	**Securities Available for Sale**		**Held-to-Maturity Securities**	
in millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 650	$ 660	$ 10	$ 10
Due after one through five years	12,207	12,335	4,740	4,706
Due after five through ten years	260	255		
Due after ten years	3	3		
Total	$ 13,120	$ 13,253	$ 4,750	$ 4,716

Table of Contents

7. Derivatives and Hedging Activities

We are a party to various derivative instruments, mainly through our subsidiary, KeyBank. Derivative instruments are contracts between two or more parties that have a notional amount and an underlying variable, require a small or no net investment, and allow for the net settlement of positions. A derivative s notional amount serves as the basis for the payment provision of the contract, and takes the form of units, such as shares or dollars. A derivative s underlying variable is a specified interest rate, security price, commodity price, foreign exchange rate, index, or other variable. The interaction between the notional amount and the underlying variable determines the number of units to be exchanged between the parties and influences the fair value of the derivative contract.

The primary derivatives that we use are interest rate swaps, caps, floors, and futures; foreign exchange contracts; energy derivatives; credit derivatives; and equity derivatives. Generally, these instruments help us manage exposure to interest rate risk, mitigate the credit risk inherent in the loan portfolio, hedge against changes in foreign currency exchange rates, and meet client financing and hedging needs. As further discussed in this note:

¿ interest rate risk represents the possibility that the EVE or net interest income will be adversely affected by fluctuations in interest rates;

¿ credit risk is the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms; and

¿ foreign exchange risk is the risk that an exchange rate will adversely affect the fair value of a financial instrument.
Derivative assets and liabilities are recorded at fair value on the balance sheet, after taking into account the effects of bilateral collateral and master netting agreements. These agreements allow us to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related cash collateral, where applicable. As a result, we could have derivative contracts with negative fair values included in derivative assets on the balance sheet and contracts with positive fair values included in derivative liabilities.

At June 30, 2013, after taking into account the effects of bilateral collateral and master netting agreements, we had \$115 million of derivative assets and less than \$1 million of derivative liabilities that relate to contracts entered into for hedging purposes. As of the same date, after taking into account the effects of bilateral collateral and master netting agreements and a reserve for potential future losses, we had derivative assets of \$346 million and derivative liabilities of \$456 million that were not designated as hedging instruments.

The Dodd-Frank Act, which is currently being implemented, may limit the types of derivative activities that KeyBank and other insured depository institutions may conduct. As a result, we may not continue to use all of the types of derivatives noted above in the future.

Additional information regarding our accounting policies for derivatives is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Derivatives on page 124 of our 2012 Form 10-K.

Derivatives Designated in Hedge Relationships

Net interest income and the EVE change in response to changes in the mix of assets, liabilities, and off-balance sheet instruments; associated interest rates tied to each instrument; differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities; and changes in interest rates. We utilize derivatives that have been designated as part of a hedge relationship in accordance with the applicable accounting guidance to minimize the exposure and volatility of net interest income and EVE to interest rate fluctuations. The primary derivative instruments used to manage interest rate risk are interest rate swaps, which convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index.

We designate certain receive fixed/pay variable interest rate swaps as fair value hedges. These contracts convert certain fixed-rate long-term debt into variable-rate obligations, thereby modifying our exposure to changes in interest rates. As a result, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts.

Similarly, we designate certain receive fixed/pay variable interest rate swaps as cash flow hedges. These contracts effectively convert certain floating-rate loans into fixed-rate loans to reduce the potential adverse effect of interest rate decreases on future interest income. Again, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts. We also designate certain pay fixed/receive variable interest rate swaps as cash flow hedges. These swaps convert certain floating-rate debt into fixed-rate debt. We also use these swaps to manage the interest rate risk associated with anticipated sales of certain commercial real estate loans. The swaps protect against the possible short-term decline in the value of the loans that could result from changes in interest rates between the time they are originated and the time they are sold.

We also use interest rate swaps to hedge the floating-rate debt that funds fixed-rate leases entered into by our Equipment Finance line of business. These swaps are designated as cash flow hedges to mitigate the interest rate mismatch between the fixed-rate lease cash flows and the floating-rate payments on the debt.

We use foreign currency swap transactions to hedge the foreign currency exposure of our net investment in various foreign Equipment Finance entities. These entities are denominated in a non-U.S. currency. These swaps are designated as net investment hedges to mitigate the exposure of measuring the net investment at the spot foreign exchange rate.

During the first quarter of 2012 and prior years, Key had outstanding issuances of medium-term notes that were denominated in foreign currencies. The notes were subject to translation risk, which represented the possibility that the fair value of the foreign-denominated debt would change based on movement of the underlying foreign currency spot rate. The derivatives used for managing foreign currency exchange risk were cross currency swaps. The hedge converted the notes to a variable-rate U.S. currency-denominated debt, which was designated as a fair value hedge of foreign currency exchange risk.

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at June 30, 2013, was not significant.

Like other financial services institutions, we originate loans and extend credit, both of which expose us to credit risk. We actively manage our overall loan portfolio and the associated credit risk in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate portfolio credit risk. Purchasing credit default swaps enables us to transfer to a third party a portion of the credit risk associated with a particular extension of credit. We may also sell credit derivatives to offset our purchased credit default swap position prior to maturity. Although we use credit default swaps for risk management purposes, they are not treated as hedging instruments.

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

¿ interest rate swap, cap, and floor contracts entered into generally to accommodate the needs of commercial loan clients;

¿ energy and base metal swap and options contracts entered into to accommodate the needs of clients;

¿ futures contracts and positions with third parties that are intended to offset or mitigate the interest rate or market risk related to client positions discussed above; and

¿ foreign exchange forward contracts and options entered into primarily to accommodate the needs of clients. These contracts are not designated as part of hedge relationships.

Fair Values, Volume of Activity and Gain/Loss Information Related to Derivative Instruments

The following table summarizes the fair values of our derivative instruments on a gross and net basis as of June 30, 2013, December 31, 2012, and June 30, 2012. The change in the notional amounts of these derivatives by type from December 31, 2012, to June 30, 2013, indicates the volume of our derivative transaction activity during the first half of 2013. The notional amounts are not affected by bilateral collateral and master netting agreements. The balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Where master netting agreements do not exist or are not enforceable agreements under bankruptcy laws, those derivative assets and liabilities with counterparties are not adjusted. Securities collateral related to legally enforceable master netting agreements are not offset on the balance sheet. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

Table of Contents

June 30, 2013			December 31, 2012			June 30, 2012	
	Fair Value			Fair Value			Fair
otional mount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets	Derivative Liabilities	Notional Amount	Derivative Assets
15,670	**$ 377**	**$ 59**	$ 19,085	$ 579	$ 30	$ 15,903	$ 586
189	**3**		196		7	431	2
15,859	**380**	**59**	19,281	579	37	16,334	588
45,104	**851**	**812**	51,633	1,144	1,122	58,222	1,273
4,934	**97**	**93**	5,025	75	68	5,579	105
1,896	**119**	**114**	1,688	156	150	1,691	209
1,118	**6**	**11**	955	9	10	2,613	25
			7			18	
53,052	**1,073**	**1,030**	59,308	1,384	1,350	68,123	1,612
	(992)	**(633)**		(1,270)	(803)		(1,382)
68,911	**461**	**456**	78,589	693	584	84,457	818
	(87)	**(316)**		(163)	(475)		(207)
68,911	**$ 374**	**$ 140**	$ 78,589	$ 530	$ 109	$ 84,457	$ 611

(a) Netting adjustments represent the amounts recorded to convert our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance.

(b) Other collateral represents the amount that cannot be used to offset our derivative assets and liabilities from a gross basis to a net basis in accordance with the applicable accounting guidance. The other collateral consists of securities and is exchanged under bilateral collateral and master netting agreements that allow us to offset the net derivative position with the related collateral. The application of the other collateral cannot reduce the net derivative position below zero. Therefore, any excess other collateral is not reflected above.

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the six-month period ended June 30, 2013, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of June 30, 2013.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the six-month periods ended June 30, 2013, and 2012, and where they are recorded on the income statement.

Six months ended June 30, 2013

ns	**Income Statement Location of Net Gains (Losses) on Derivative**	**Net Gains (Losses) on Derivative**	**Hedged Item**	**Income Statement Location of Net Gains (Losses) on Hedged Item**	**Net Gains (Losses) on Hedged Iten**
st	Other income	**$ (156)**	Long-term debt	Other income	**$ 1**
st	Interest expense Long-term debt	**66**			
		$ (90)			**$ 1**

Six months ended June 30, 2012

ns	**Income Statement Location of Net Gains (Losses) on Derivative**	**Net Gains (Losses) on Derivative**	**Hedged Item**	**Income Statement Location of Net Gains (Losses) on Hedged Item**	**Net Gains (Losses) on Hedged Iten**
st	Other income	$ (13)	Long-term debt	Other income	$
st	Interest expense Long-term debt	89			
n nge	Other income	5	Long-term debt	Other income	
n nge	Interest expense Long-term debt	1	Long-term debt	Interest expense Long-term debt	

$	82		$

(a) Net gains (losses) on hedged items represent the change in fair value caused by fluctuations in interest rates.

(b) Net gains (losses) on hedged items represent the change in fair value caused by fluctuations in foreign currency exchange rates.

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet and is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial

54

Table of Contents

loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other income on the income statement. During the six-month period ended June 30, 2013, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of June 30, 2013.

Considering the interest rates, yield curves, and notional amounts as of June 30, 2013, we would expect to reclassify an estimated $26 million of net losses on derivative instruments from AOCI to income during the next twelve months for our cash flow hedges. In addition, we expect to reclassify approximately $6 million of net gains related to terminated cash flow hedges from AOCI to income during the next twelve months. The maximum length of time over which we hedge forecasted transactions is 15 years.

Net investment hedges. In May 2012, we began entering into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of a foreign subsidiary). At June 30, 2013, AOCI reflected unrecognized after-tax gains totaling $1 million related to cumulative changes in the fair value of our net investment hedge, which offset the unrecognized after-tax losses on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement. However, there was no net investment hedge ineffectiveness as of June 30, 2013. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness while these hedges were outstanding during the six-month period ended June 30, 2013.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the six-month periods ended June 30, 2013 and 2012, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

Six months ended June 30, 2013

in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)**	**Net Gains (Losses) Recognized in Income (Ineffective Portion)**
Cash Flow Hedges					
Interest rate	**$ (62)**	Interest income Loans	**$ 35**	Other income	
Interest rate	**15**	Interest expense Long-term debt	**(4)**	Other income	
Interest rate	**3**	Investment banking and debt placement fees		Other income	

Net Investment Hedges					
Foreign exchange contracts	**10**	Other Income	**(3)**	Other income	
Total	**$ (34)**		**$ 28**		

Six months ended June 30, 2012

in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)**	**Net Gains (Losses) Recognized in Income (Ineffective Portion)**
Cash Flow Hedges					
Interest rate	$ 50	Interest income Loans	$ 29	Other income	
Interest rate	(7)	Interest expense Long-term debt	(5)	Other income	
Interest rate		Investment banking and debt placement fees		Other income	
Net Investment Hedges					
Foreign exchange contracts	(6)	Other Income		Other income	
Total	$ 37		$ 24		

Table of Contents

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

in millions		December 31, 2012		2013 Hedging Activity		Reclassification of Gains to Net Income		June 30, 2013
AOCI resulting from cash flow and net investment hedges	$	18	**$**	**(22)**	**$**	**(17)**	**$**	**(21)**

Nonhedging instruments. Our derivatives that are not designated as hedging instruments are recorded at fair value in derivative assets and derivative liabilities on the balance sheet. Adjustments to the fair values of these instruments, as well as any premium paid or received, are included in corporate services income and other income on the income statement.

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the six month periods ended June 30, 2013, and 2012, and where they are recorded on the income statement.

	Six months ended June 30, 2013						**Six months ended June 30, 2012**					
in millions		**Corporate Services Income**		**Other Income**		**Total**		**Corporate Services Income**		**Other Income**		**Total**
NET GAINS (LOSSES)												
Interest rate	**$**	**8**			**$**	**8**	$	12	$	(2)	$	10
Foreign exchange		**21**				**21**		19				19
Energy and commodity		**3**				**3**		6				6
Credit		**1**	**$**	**(7)**		**(6)**				(9)		(9)
Total net gains (losses)	**$**	**33**	**$**	**(7)**	**$**	**26**	$	37	$	(11)	$	26

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with ISDA and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises or GNMA. The cash collateral netted against derivative assets on the balance sheet totaled $368 million at June 30, 2013, $494 million at December 31, 2012, and $513 million at June 30, 2012. The cash collateral netted against derivative liabilities totaled $9 million at June 30, 2013, $27 million at December 31, 2012, and $11 million at June 30, 2012. At June 30, 2013, we held less than $1 million and posted $1 million of cash collateral with clearing organizations that we are unable to net against the gross exposures because the relevant clearing agreements are not considered to be qualified master netting agreements. This additional cash collateral is included in "accrued income and other assets" and "accrued expense and other liabilities" on the balance sheet.

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

in millions	June 30, 2013	December 31, 2012	June 30, 2012
Largest gross exposure (derivative asset) to an individual counterparty	$ 136	$ 182	$ 196
Collateral posted by this counterparty	48	66	70
Derivative liability with this counterparty	132	191	217
Collateral pledged to this counterparty	52	82	93
Net exposure after netting adjustments and collateral	8	7	2

The following table summarizes the fair value of our derivative assets by type. These assets represent our gross exposure to potential loss after taking into account the effects of bilateral collateral and master netting agreements and other means used to mitigate risk.

in millions	June 30, 2013	December 31, 2012	June 30, 2012
Interest rate	**$ 775**	$ 1,114	$ 1,221
Foreign exchange	**24**	23	22
Energy and commodity	**28**	47	82
Credit	**2**	3	6
Derivative assets before collateral	**829**	1,187	1,331
Less: Related collateral	**368**	494	513
Total derivative assets	**$ 461**	$ 693	$ 818

We enter into derivative transactions with two primary groups: broker-dealers and banks, and clients. Since these groups have different economic characteristics, we have different methods for managing counterparty credit exposure and credit risk.

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. At June 30, 2013, for derivatives that have associated bilateral collateral and master netting agreements, we had gross exposure of $626 million to broker-dealers and banks. We had net exposure of $119 million after the application of master netting agreements and cash collateral; our net exposure to broker-dealers and banks at June 30, 2013, was an excess collateral position of $3 million after considering $122 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures, and entering into offsetting positions and other derivative contracts. Due to the smaller size and magnitude of the individual contracts with clients, collateral generally is not exchanged in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a default reserve (included in derivative assets) in the amount of $16 million at June 30, 2013, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2012, the default reserve was $19 million. At June 30, 2013, for derivatives that have associated master netting agreements, we had gross exposure of $385 million to client counterparties. We had net exposure of $342 million on our derivatives with clients after the application of master netting agreements, collateral and the related reserve.

Credit Derivatives

We are both a buyer and seller of credit protection through the credit derivative market. We purchase credit derivatives to manage the credit risk associated with specific commercial lending and swap obligations. We may also sell credit derivatives, mainly single name credit default swaps, to offset our purchased credit default swap position prior to maturity. We previously sold index credit default swaps to diversify the concentration risk within our loan portfolio.

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of June 30, 2013, December 31, 2012 and June 30, 2012. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

Table of Contents

June 30, 2013			December 31, 2012			June 30, 2012		
Purchased	**Sold**	**Net**	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	
$ (4)	**$ 1**	**$ (3)**	$ (1)	$ 1		$ (4)	$ 1	$
(1)		**(1)**					3	
				(1)	$ (1)	1	(1)	
$ (5)	**$ 1**	**$ (4)**	$ (1)		$ (1)	$ (3)	$ 3	

Single name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protection against the credit risk of a specific entity (the reference entity) in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring of obligations, identified in the credit derivative contract. As the seller of a single name credit derivative, we would be required to pay the purchaser the difference between the par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement) if the underlying reference entity experiences a predefined credit event. For a single name credit derivative, the notional amount represents the maximum amount that a seller could be required to pay. If we effect a physical settlement and receive our portion of the related debt obligation, we will join other creditors in the liquidation process, which may enable us to recover a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

A traded credit default swap index represents a position on a basket or portfolio of reference entities. As a seller of protection on a credit default swap index, we would be required to pay the purchaser if one or more of the entities in the index had a credit event. For a credit default swap index, the notional amount represents the maximum amount that a seller could be required to pay. Upon a credit event, the amount payable is based on the percentage of the notional amount allocated to the specific defaulting entity. During 2012, we suspended trading in traded credit default swap indices for purposes of diversifying concentration risk within our loan portfolio.

The majority of transactions represented by the other category shown in the above table are risk participation agreements. In these transactions, the lead participant has a swap agreement with a customer. The lead participant (purchaser of protection) then enters into a risk participation agreement with a counterparty (seller of protection), under which the counterparty receives a fee to accept a portion of the lead participant s credit risk. If the customer defaults on the swap contract, the counterparty to the risk participation agreement must reimburse the lead participant for the counterparty s percentage of the positive fair value of the customer swap as of the default date. If the customer swap has a negative fair value, the counterparty has no reimbursement requirements. If the customer defaults on the swap contract and the seller fulfills its payment obligations under the risk participation agreement, the seller is entitled to a pro rata share of the lead participant s claims against the customer under the terms of the swap agreement.

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at June 30, 2013, December 31, 2012, and June 30, 2012. The notional amount represents the maximum amount that the seller could be required to pay. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities debt obligations using a Moody s credit ratings matrix known as Moody s Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

	June 30, 2013			December 31, 2012			June 30, 2012		
lions	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Payment / Performance Risk**	**Notional Amount**	**Average Term (Years)**	**Pe**
redit	**$ 77**	**1.05**	**8.84 %**	$ 146	0.92	11.62 %	$ 550	2.42	
							478	2.76	
	14	**5.52**	**10.31**	23	5.35	10.77	23	5.48	
ld	**$ 91**			$ 169			$ 1,051		

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody s and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties also have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody s and BBB- for S&P). At June 30, 2013, KeyBank s ratings with Moody s and S&P were A3 A-, respectively, and KeyCorp s ratings with Moody s and S&P were Baa1 and BBB+, respectively. If there were a downgrade of our ratings, we could be required to post additional collateral under those ISDA Master Agreements where we are in a net liability position. As of June 30, 2013, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled $332 million, which includes $414 million in derivative assets and $746 million in derivative liabilities. We had $334 million in cash and securities collateral posted to cover those positions as of June 30, 2013. The aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) as of June 30, 2013, held by KeyCorp that were in a net liability position totaled $9 million, which consists solely of $9 million in derivative liabilities. We had $7 million in cash and securities collateral posted to cover those positions as of June 30, 2013.

The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of June 30, 2013, December 31, 2012, and June 30, 2012. The additional collateral amounts were calculated based on scenarios under which KeyBank s ratings are downgraded one, two or three ratings as of June 30, 2013, and take into account all collateral already posted. A similar calculation was performed for KeyCorp and additional collateral of $3 million would have been required as of June 30, 2013, December 31, 2012, and June 30, 2012.

	June 30, 2013		**December 31, 2012**		**June 30, 2012**	
in millions	**Moody s**	**S&P**	**Moody s**	**S&P**	**Moody s**	**S&P**
KeyBank s long-term senior unsecured credit ratings	**A3**	**A-**	A3	A-	A3	A-
One rating downgrade	**$ 6**	**$ 6**	$ 6	$ 6	$ 6	$ 6
Two rating downgrades	**11**	**11**	11	11	11	11
Three rating downgrades	**12**	**12**	11	11	17	17

KeyBank s long-term senior unsecured credit rating currently is four ratings above noninvestment grade at Moody s and S&P. If KeyBank s ratings had been downgraded below investment grade as of June 30, 2013, payments of up to $13 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. If KeyCorp s ratings had been downgraded below investment grade as of June 30, 2013, payments of up to $3 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

Table of Contents

8. Mortgage Servicing Assets

We originate and periodically sell commercial mortgage loans but continue to service those loans for the buyers. We also may purchase the right to service commercial mortgage loans for other lenders. A servicing asset is recorded if we purchase or retain the right to service loans in exchange for servicing fees that exceed the going market rate. Changes in the carrying amount of mortgage servicing assets are summarized as follows:

	Six months ended June 30,	
in millions	**2013**	2012
Balance at beginning of period	**$ 204**	$ 173
Servicing retained from loan sales	**20**	20
Purchases	**132** (a)	24
Amortization	**(26)**	(31)
Balance at end of period	**$ 330**	$ 186
Fair value at end of period	**$ 387**	$ 237

(a) Amount includes $117 million in mortgage servicing assets that were acquired from Bank of America s Global Mortgages & Securitized Products business on June 24, 2013. See Note 11 (Acquisitions and Discontinued Operations) for further details regarding this acquisition.

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The range and weighted-average of the significant unobservable inputs used to fair value our mortgage servicing assets during the second quarter of 2013 and 2012, along with the valuation techniques, are shown in the following table:

June 30, 2013 *dollars in millions*	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	0.00 - 25.00% (8.00%)
		Expected defaults	1.10 - 3.00% (2.30%)
		Residual cash flows discount rate	7.00 - 15.00% (8.90%)
		Value assigned to escrow funds	0.25 - 2.75% (1.50%)
		Servicing cost	150 - 23,018 (5,425)

		Loan assumption rate	0.00 - 3.00% (2.38%)
		Percentage late	0.00 - 2.00% (0.21%)

June 30, 2012 *dollars in millions*	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Mortgage servicing assets	Discounted cash flow	Prepayment speed	0.00 - 25.00% (11.70%)
		Expected defaults	1.00 - 3.00% (2.40%)
		Residual cash flows discount rate	7.00 - 15.00% (9.40%)
		Value assigned to escrow funds	0.50 - 3.75% (1.80%)
		Servicing cost	700 - 17,000 (2,512)
		Loan assumption rate	0.00 - 3.00% (2.18%)
		Percentage late	0.00 - 2.00% (0.22%)

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may as a result change in the future. The volume of loans serviced, expected credit losses, and the value assigned to escrow deposits are critical to the valuation of servicing assets. At June 30, 2013, a 1.00% decrease in the value assigned to the escrow deposits would cause a $38 million decrease in the fair value of our mortgage servicing assets. An increase in the assumed default rate of commercial mortgage loans of 1.00% would cause a $2 million decrease in the fair value of our mortgage servicing assets.

Contractual fee income from servicing commercial mortgage loans totalled $48 million for the six-month period ended June 30, 2013 and $45 million for the six-month period ended June 30, 2012. We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as shown in the preceding table, is recorded as a reduction to fee income. Both the contractual fee income and the amortization are recorded in other income on the income statement.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 (Summary of Significant Accounting Policies) under the heading Servicing Assets on page 125 of our 2012 Form 10-K and Note 11 (Acquisitions and Discontinued Operations) under the heading Education lending in this report.

Table of Contents

9. Variable Interest Entities

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

¿ The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.

¿ The entity s investors lack the power to direct the activities that most significantly impact the entity s economic performance.

¿ The entity s equity at risk holders do not have the obligation to absorb losses or the right to receive residual returns.

¿ The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity s activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

Our VIEs are summarized below. We define a significant interest in a VIE as a subordinated interest that exposes us to a significant portion, but not the majority, of the VIE s expected losses or residual returns, even though we do not have the power to direct the activities that most significantly impact the entity s economic performance.

	Consolidated VIEs		Unconsolidated VIEs		
in millions	**Total Assets**	**Total Liabilities**	**Total Assets**	**Total Liabilities**	**Maximum Exposure to Loss**
June 30, 2013					
LIHTC funds	$ 22	$ 27	$ 113		
Education loan securitization trusts	2,341	2,139	N/A	N/A	N/A
LIHTC investments	N/A	N/A	788		$ 449

Our involvement with VIEs is described below.

Consolidated VIEs

LIHTC guaranteed funds. KAHC formed limited partnerships, known as funds, that invested in LIHTC operating partnerships. Interests in these funds were offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndication fees from the funds and continue to earn asset management fees. The funds assets primarily are investments in LIHTC operating partnerships, which totaled $19 million at June 30, 2013. These investments are recorded in accrued income and other assets on the balance sheet and serve as collateral for the funds limited obligations.

We have not formed new funds or added LIHTC partnerships since October 2003. However, we continue to act as asset manager and to provide occasional funding for existing funds under a guarantee obligation. As a result of this guarantee obligation, we have determined that we are the primary beneficiary of these funds. Additional information on return guarantee agreements with LIHTC investors is presented in Note 15 (Contingent Liabilities and Guarantees) under the heading Guarantees.

In accordance with the applicable accounting guidance for distinguishing liabilities from equity, third-party interests associated with our LIHTC guaranteed funds are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on the balance sheet. However, the FASB has indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeemable third-party interests associated with finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust our financial statements each period for the third-party investors share of the funds profits and losses. At June 30, 2013, we estimated the settlement value of these third-party interests to be between zero and $17 million, while the recorded value, including reserves, totaled $31 million. The partnership agreement for each of our guaranteed funds requires the fund to be dissolved by a certain date.

Education loan securitization trusts. In September 2009, we decided to exit the government-guaranteed education lending business. Therefore, we have accounted for this business as a discontinued operation. In the past, as part of our education lending business model, we originated and securitized education loans. As the transferor, we retained a portion of the risk in the form of a residual interest and also retained the right to service the securitized loans and receive servicing fees. We have not securitized any education loans since 2006.

Table of Contents

We consolidated our ten outstanding education loan securitization trusts as of January 1, 2010. We were required to consolidate these trusts because we hold the residual interests and, as the master servicer, we have the power to direct the activities that most significantly influence the trusts economic performance. We elected to consolidate these trusts at fair value. The trust assets can be used only to settle the obligations or securities that the trusts issue; we cannot sell the assets or transfer the liabilities. The security holders or beneficial interest holders do not have recourse to us, and we do not have any liability recorded related to their securities. Further information regarding these education loan securitization trusts is provided in Note 11 (Acquisitions and Discontinued Operations) under the heading Education lending.

Unconsolidated VIEs

LIHTC nonguaranteed funds. Although we hold significant interests in certain nonguaranteed funds that we formed and funded, we have determined that we are not the primary beneficiary because we do not absorb the majority of the funds expected losses and do not have the power to direct activities that most significantly influence the economic performance of these entities. At June 30, 2013, assets of these unconsolidated nonguaranteed funds totaled $113 million. Our maximum exposure to loss in connection with these funds is minimal, and we do not have any liability recorded related to the funds. We have not formed nonguaranteed funds since October 2003.

LIHTC investments. Through Key Community Bank, we have made investments directly in LIHTC operating partnerships formed by third parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated with the underlying properties. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly influence the economic performance of their respective partnerships and have the obligation to absorb expected losses and the right to receive benefits.

At June 30, 2013, assets of these unconsolidated LIHTC operating partnerships totaled approximately $788 million. At June 30, 2013, our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $352 million plus $97 million of tax credits claimed but subject to recapture. We do not have any liability recorded related to these investments because we believe the likelihood of any loss is remote. During the first six months of 2013, we did not obtain significant direct investments (either individually or in the aggregate) in LIHTC operating partnerships.

We have additional investments in unconsolidated LIHTC operating partnerships that are held by the consolidated LIHTC guaranteed funds. Total assets of these operating partnerships were approximately $994 million at June 30, 2013. The tax credits and deductions associated with these properties are allocated to the funds investors based on their ownership percentages. We have determined that we are not the primary beneficiary of these partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance and the obligation to absorb expected losses and right to receive residual returns. Information regarding our exposure to loss in connection with these guaranteed funds is included in Note 15 under the heading Return guarantee agreement with LIHTC investors.

Commercial and residential real estate investments and principal investments. Our Principal Investing unit and the Real Estate Capital line of business make equity and mezzanine investments, some of which are in VIEs. These investments are held by nonregistered investment companies subject to the provisions of the AICPA Audit and Accounting Guide, Audits of Investment Companies. We are not currently applying the accounting or disclosure provisions in the applicable accounting guidance for consolidations to these investments, which remain unconsolidated. The FASB has indefinitely deferred the effective date of this guidance for such nonregistered investment companies.

62

Table of Contents

10. Income Taxes

Income Tax Provision

In accordance with the applicable accounting guidance, the principal method established for computing the provision for income taxes in interim periods requires us to make our best estimate of the effective tax rate expected to be applicable for the full year. This estimated effective tax rate is then applied to interim consolidated pre-tax operating income to determine the interim provision for income taxes.

The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 26.7% for the second quarter of 2013, 25.8% for the first quarter of 2013, and 19.2% for the second quarter of 2012. The effective tax rates are below our combined federal and state statutory tax rate of 37.2%, due primarily to income from investments in tax-advantaged assets such as corporate-owned life insurance and credits associated with investments in low-income housing projects. Our effective rate was lower during the second quarter of 2012 due to the early termination of certain leverage leases that resulted in nontaxable gains pursuant to a prior settlement with the IRS.

Deferred Tax Asset

At June 30, 2013, from continuing operations, we had a federal deferred tax asset of $197 million and a state deferred tax asset of less than $1 million compared to a federal deferred tax asset of $129 million and a state deferred tax liability of $8 million at December 31, 2012, and a federal net deferred tax asset of $111 million and a state deferred tax liability of $22 million at June 30, 2012, included in accrued income and other assets on the balance sheet. To determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded, we conduct a quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior periods, projected future taxable income, and projected future reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo change. Based on these criteria, we have a valuation allowance of $2 million at June 30, 2013, and $3 million at December 31, 2012, associated with certain state net operating loss carryforwards and state credit carryforwards. We did not have a valuation allowance at June 30, 2012.

Unrecognized Tax Benefits

As permitted under the applicable accounting guidance for income taxes, it is our policy to recognize interest and penalties related to unrecognized tax benefits in income tax expense.

Table of Contents

11. Acquisitions and Discontinued Operations

Acquisitions

Mortgage Servicing Rights. On June 24, 2013, we acquired substantially all third party commercial loan servicing rights comprised of Commercial Mortgage-Backed Securities (CMBS) Master, Primary and Special Servicing as well as certain Life and other servicing from Bank of America s Global Mortgages & Securitized Products business. Simultaneously, we entered into a subservicing agreement with Berkadia Commercial Mortgage LLC related to all CMBS primary servicing. This acquisition, which is being accounted for as a business combination, is part of our strategy to drive growth by building scale and becoming one of the top three largest servicers of commercial/multifamily loans in the U.S. and the fifth largest special servicer of CMBS. The acquisition date estimated fair value of the mortgage servicing rights (MSRs) acquired on June 24, 2013, which were included on our balance sheet at June 30, 2013, was approximately $117 million. During the third quarter of 2013, we expect to acquire the remaining MSRs related to this transaction and finalize this acquisition. Additional information regarding our mortgage servicing assets is provided in Note 8 (Mortgage Servicing Assets).

Key-Branded Credit Card Portfolio. On August 1, 2012, we acquired Key-branded credit card assets from Elan Financial Services, Inc. This acquisition was accounted for as an asset purchase. The fair value of the credit card assets purchased was approximately $718 million at the acquisition date. We also recorded a purchased credit card relationship intangible asset of approximately $135 million and a rewards liability of approximately $9 million in the Community Bank reporting unit.

Western New York Branches. On July 13, 2012, we acquired 37 retail banking branches in Western New York. This acquisition was accounted for as a business combination. The acquisition date fair value of the assets and deposits acquired was approximately $2 billion. We received loans with a fair value of $244 million (including $25 million of PCI loans), $8 million of premises and equipment and assumed $2 billion of deposits. Cash of $1.8 billion was received to assume the net liabilities, and we recorded a core deposit intangible asset of $40 million and a goodwill asset of $62 million in the Key Community Bank reporting unit during the third quarter of 2012. All of the goodwill related to this acquisition is expected to be deductible for tax purposes.

A second closing of this acquisition occurred on September 14, 2012, when we acquired credit card assets with a fair value of approximately $68 million and remitted a cash payment of $68 million to the seller. We also recorded a purchased credit card relationship intangible asset of approximately $1 million and a rewards liability of approximately $1 million in the Key Community Bank reporting unit. No additional goodwill resulted from the acquisition of these credit card assets.

Discontinued operations

Education lending. In September 2009, we decided to exit the government-guaranteed education lending business. As a result, we have accounted for this business as a discontinued operation.

Income (loss) from discontinued operations, net of taxes on the income statement includes (i) the changes in fair value of the assets and liabilities of the education loan securitization trusts and the loans at fair value in portfolio (discussed later in this note), and (ii) the interest income and expense from the loans and the securities of the trusts and the loans in portfolio at both amortized cost and fair value. These amounts are shown separately in the following table. Gains and losses attributable to changes in fair value are recorded as a component of noninterest income or expense. Interest income and expense related to the loans and securities are shown as a component of Net interest income.

64

Table of Contents

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

in millions	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Net interest income	**$ 26**	$ 30	**$ 54**	$ 61
Provision for loan and lease losses	**(2)**	2	**4**	6
Net interest income (expense) after provision for loan and lease losses	**28**	28	**50**	55
Noninterest income	**(18)**	(2)	**(34)**	(20)
Noninterest expense	**7**	9	**14**	18
Income (loss) before income taxes	**3**	17	**2**	17
Income taxes	**2**	6	**1**	6
Income (loss) from discontinued operations, net of taxes [(a)]	**$ 1**	$ 11	**$ 1**	$ 11

(a) Includes after-tax charges of $11 million and $12 million for the three-month periods ended June 30, 2013 and 2012, and $21 and $26 million for the six-month periods ended June 30, 2013 and 2012, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The discontinued assets and liabilities of our education lending business included on the balance sheet are as follows:

in millions	June 30, 2013	December 31, 2012	June 30, 2012
Trust loans at fair value	**$ 2,317**	$ 2,369	$ 2,580
Portfolio loans at fair value	**151**	157	73
Loans, net of unearned income of ($5), ($5) and ($2)	**2,524**	2,675	2,830
	41	55	79

Less: Allowance for loan and lease losses						
Net loans		**4,951**		5,146		5,404
Trust accrued income and other assets at fair value		**24**		26		31
Accrued income and other assets		**52**		60		76
Total assets	**$**	**5,027**	$	5,232	$	5,511
Trust accrued expense and other liabilities at fair value	**$**	**21**	$	22	$	28
Trust securities at fair value		**2,118**		2,159		2,373
Total liabilities	**$**	**2,139**	$	2,181	$	2,401

The discontinued education lending business consists of assets and liabilities in the securitization trusts (recorded at fair value), as well as loans in portfolio (recorded at fair value) and loans in portfolio (recorded at carrying value with appropriate valuation reserves) that are held outside the trusts.

At June 30, 2013, portfolio loans recorded at carrying value include 734 TDRs with a recorded investment of approximately $8 million (pre-modification and post-modification). A specifically allocated allowance of $2 million was assigned to these loans as of June 30, 2013. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 4 (Asset Quality).

In the past, as part of our education lending business model, we originated and securitized education loans. The process of securitization involves taking a pool of loans from our balance sheet and selling them to a bankruptcy-remote QSPE, or trust. This trust then issues securities to investors in the capital markets to raise funds to pay for the loans. The interest generated on the loans pays holders of the securities issued. As the transferor, we retain a portion of the risk in the form of a residual interest and also retain the right to service the securitized loans and receive servicing fees.

As of January 1, 2010, we consolidated our ten outstanding securitization trusts since we hold the residual interests and are the master servicer with the power to direct the activities that most significantly influence the economic performance of the trusts.

The trust assets can be used only to settle the obligations or securities the trusts issue; we cannot sell the assets or transfer the liabilities. The loans in the consolidated trusts consist of both private and government-guaranteed loans. The security holders or beneficial interest holders do not have recourse to Key. Our economic interest or risk of loss associated with these education loan securitization trusts is approximately $202 million as of June 30, 2013. We record all income and expense (including fair value adjustments) through the income (loss) from discontinued operations, net of tax line item in our income statement.

We elected to consolidate these trusts at fair value. Carrying the assets and liabilities of the trusts at fair value better depicts our economic interest. The fair value of the assets and liabilities of the trusts is determined by calculating the present value of the future expected cash flows. We rely on unobservable inputs (Level 3) when determining the fair value of the assets and liabilities of the trusts because observable market data is not available. See further discussion regarding our valuation process later in this note.

At June 30, 2013 there are $145 million of loans that were purchased from two of the outstanding securitizations trusts pursuant to the legal terms of these particular trusts. These loans are held as portfolio loans and continue to be accounted for at fair value. These portfolio loans were valued using an internal discounted cash flow model, which was affected by assumptions for defaults, loss severity, discount rates and prepayments. These portfolio loans are considered to be Level 3 assets since we rely on unobservable inputs when determining fair value. See the following discussion regarding our valuation process for these loans as well as the trust loans and securities. Portfolio loans accounted for at fair value had a value of $151 million at June 30, 2013, $157 million at December 31, 2012, and $73 million at June 30, 2012.

Corporate Treasury, within our Finance area, is responsible for the quarterly valuation process that determines the fair value of the loans and securities in our education loan securitization trusts as well as our student loans held in portfolio that are accounted for at fair value. Corporate Treasury provides these fair values to a Working Group Committee (the Working Group) comprising representatives from the line of business, Credit and Market Risk Management, Accounting, Business Finance (part of our Finance area), and Corporate Treasury. The Working Group is a subcommittee of the Fair Value Committee that is discussed in more detail in Note 5 (Fair Value Measurements). The Working Group reviews all significant inputs and assumptions and approves the resulting fair values.

The Working Group reviews actual performance trends of the loans and securities on a quarterly basis and uses statistical analysis and qualitative measures to determine assumptions for future performance. Predictive models that incorporate delinquency and charge-off trends along with economic outlooks assist the Working Group to forecast future defaults. The Working Group uses this information to formulate the credit outlook for each of the securitization trusts. Higher projected defaults, fewer expected recoveries, elevated prepayment speeds and higher discount rates would be expected to result in a lower fair value of the loans and securities in these securitization trusts as well as the portfolio loans at fair value. Default expectations and discount rate changes have the most significant impact on the fair values of the loans and securities. It is important to note that increased cash flow uncertainty, whether through higher defaults and prepayments or fewer recoveries, can result in higher discount rates for use in the fair value process for these loans and securities.

The valuation process for the education loan securitization trust and portfolio loans that are accounted for at fair value is based on a discounted cash flow analysis using a model purchased from a third party that is maintained by Corporate Treasury. The valuation process begins with loan-by-loan-level data that is aggregated into pools based on underlying loan structural characteristics (i.e., current unpaid principal balance, contractual term, interest rate). Cash flows for these loan pools are developed using a financial model that reflects certain assumptions for defaults, recoveries, status change and prepayments.

A net earnings stream, taking into account cost of funding, is calculated and discounted back to the measurement date using an appropriate discount rate. This resulting amount is used to determine the present value of the loans, which represents their fair value to a market participant.

The unobservable inputs set forth in the following table are reviewed and approved by the Working Group on a quarterly basis. The Working Group determines these assumptions based on available data, discussions with appropriate individuals internal and external to Key, and the knowledge and experience of the Working Group members.

A similar discounted cash flow approach to that described above is used on a quarterly basis by Corporate Treasury to fair value the trust securities. In valuing these securities, the discount rates used are provided by a third-party valuation consultant. These discount rates are based primarily on secondary market spread indices for similar student loans and asset-backed securities and are developed by the consultant using market-based data. On a quarterly basis, the Working Group reviews the discount rate inputs used in the valuation process for reasonableness based on the historical and current market knowledge of the Working Group members.

Table of Contents

A quarterly variance analysis reconciles valuation changes in the model used to calculate the fair value of the trust loans and securities and the portfolio loans at fair value. This quarterly analysis considers loan and securities runoff, yields, future default and recovery changes, and the timing of cash releases to us from the trusts. Back testing for expected defaults to actual experience is also performed as the impact of future defaults has a significant impact on the fair value of these loans and securities over time. In addition, our internal model validation group periodically performs a review to ensure the accuracy and validity of the model for determining the fair value of these loans and securities.

The following table shows the significant unobservable inputs used to measure the fair value of the education loan securitization trust loans and securities and the portfolio loans accounted for at fair value as of June 30, 2013:

June 30, 2013 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Trust loans and portfolio loans accounted for at fair value	$ 2,468	Discounted cash flow	Prepayment speed	4.00 - 13.50% (6.16%)
			Loss severity	2.00 - 80.00% (52.29%)
			Discount rate	1.90 - 4.20% (3.12%)
			Default rate	8.13 - 22.00% (13.84%)
Trust securities	2,118	Discounted cash flow	Discount rate	1.10 - 3.70% (2.43%)

December 31, 2012 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Trust loans and portfolio loans accounted for at fair value	$ 2,526	Discounted cash flow	Prepayment speed	4.00 - 26.00% (10.02%)
			Loss severity	2.00 - 80.00% (52.30%)
			Discount rate	2.40 - 6.60% (4.79%)
			Default rate	8.13 - 21.50% (13.44%)
Trust securities	2,159	Discounted cash flow	Discount rate	1.50 - 6.10% (4.14%)

June 30, 2012 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**

Trust loans and portfolio loans accounted for at fair value	$	2,653	Discounted cash flow	Prepayment speed Loss severity Discount rate Default rate	4.00 - 26.00% (10.22%) 2.00 - 80.00% (52.34%) 3.00 - 8.10% (5.30%) 8.00 - 20.64% (12.40%)
Trust securities		2,373	Discounted cash flow	Discount rate	2.10 - 6.90% (4.80%)

The following table shows the consolidated trusts assets and liabilities at fair value and the portfolio loans at fair value and their related contractual values as of June 30, 2013. At June 30, 2013, loans held by the trusts with unpaid principal balances of $29 million ($30 million on a fair value basis) and portfolio loans at fair value with unpaid principal balances of $4 million ($4 million on a fair value basis) were 90 days or more past due. Loans held by the trusts aggregating $13 million ($13 million on a fair value basis) were in nonaccrual status, while portfolio loans at fair value in nonaccrual status aggregated to less than $1 million on both a contractual amount and fair value basis. Portfolio loans at carrying value that are 90 days or more past due were $35 million at June 30, 2013 and $43 million at June 30, 2012, respectively. Portfolio loans at carrying value in nonaccrual (and nonperforming) status were $6 million and $2 million at June 30, 2013, and 2012, respectively. Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans on page 120 of our 2012 Form 10-K.

Table of Contents

June 30, 2013 *in millions*		**Contractual Amount**		**Fair Value**
ASSETS				
Portfolio loans	$	145	$	151
Trust loans		2,269		2,317
Trust other assets		24		24
LIABILITIES				
Trust securities	$	2,288	$	2,118
Trust other liabilities		21		21

The following table presents the assets and liabilities of the trusts that were consolidated and are measured at fair value, as well as the portfolio loans that are measured at fair value on a recurring basis.

June 30, 2013 *in millions*	**Level 1**	**Level 2**		**Level 3**		**Total**
ASSETS MEASURED ON A RECURRING BASIS						
Portfolio loans			$	151	$	151
Trust loans				2,317		2,317
Trust other assets				24		24
Total assets on a recurring basis at fair value			$	2,492	$	2,492
LIABILITIES MEASURED ON A RECURRING BASIS						
Trust securities			$	2,118	$	2,118
Trust other liabilities				21		21
Total liabilities on a recurring basis at fair value			$	2,139	$	2,139

The following table shows the change in the fair values of the Level 3 consolidated education loan securitization trusts and portfolio loans for the six-month period ended June 30, 2013.

in millions		Portfolio Student Loans		Trust Student Loans		Trust Other Assets		Trust Securities		Trust Other Liabilities
Balance at December 31, 2012	$	157	$	2,369	$	26	$	2,159	$	22
Gains (losses) recognized in earnings [(a)]				111				144		
Purchases										
Sales										
Issuances										
Settlements		(6)		(163)		(2)		(185)		(1)
Balance at June 30, 2013	$	151	$	2,317	$	24	$	2,118	$	21
Balance at March 31, 2013	$	154	$	2,333	$	25	$	2,126	$	25
Gains (losses) recognized in earnings [(a)]				68				85		
Purchases										
Sales										
Issuances										
Settlements		(3)		(84)		(1)		(93)		(4)
Balance at June 30, 2013	$	151	$	2,317	$	24	$	2,118	$	21

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

Victory Capital Management and Victory Capital Advisors. On February 21, 2013, we agreed to sell our investment management subsidiary Victory Capital Management and its broker-dealer affiliate Victory Capital Advisors (collectively, Victory) to a private equity fund. The transaction closed on July 31, 2013. We have accounted for this business as a discontinued operation.

Table of Contents

As previously reported, on February 21, 2013, we announced an agreement to sell our investment management subsidiary, Victory Capital Management, and our broker-dealer affiliate, Victory Capital Advisors, to a private equity fund. The after-tax realized gain which was originally estimated to be $145 million to $155 million is now expected to be in the range of $100 million to $115 million. The cash portion of the gain will be between $75 million and $90 million. The difference from the original estimate is due to higher than expected client attrition that has taken place during the consent process. We have received no objection from the Federal Reserve to use the cash portion of the gain for Common Share repurchases. The Board intends to consider these additional Common Share repurchases at its September meeting.

The results of this discontinued business are included in income (loss) from discontinued operations, net of taxes on the income statement. The components of income (loss) from discontinued operations, net of taxes for Victory are as follows:

in millions	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Noninterest income	**$ 28**	$ 28	**$ 57**	$ 58
Noninterest expense	**22**	21	**43**	45
Income (loss) before income taxes	**6**	7	**14**	13
Income taxes	**2**	3	**5**	5
Income (loss) from discontinued operations, net of taxes	**$ 4**	$ 4	**$ 9**	$ 8

The discontinued assets and liabilities of Victory that are classified as held for sale and measured at the lower of carrying value or fair value less cost to sell, included on the balance sheet and the related assets under management are as follows:

in millions	June 30, 2013	December 31, 2012	June 30, 2012
Cash and due from banks	**$ 1**	$ 1	$ 1
Accrued income and other assets	**35**	27	11
Total assets	**$ 36**	$ 28	$ 12
Accrued expense and other liabilities	**$ 30**	$ 38	$ 27

Total liabilities	**$ 30**	$ 38	$ 27

Austin Capital Management, Ltd. In April 2009, we decided to wind down the operations of Austin, a subsidiary that specialized in managing hedge fund investments for institutional customers. As a result, we have accounted for this business as a discontinued operation.

The results of this discontinued business are included in income (loss) from discontinued operations, net of taxes on the income statement. The components of income (loss) from discontinued operations, net of taxes for Austin are as follows:

	Three months ended June 30,		**Six months ended June 30,**	
in millions	**2013**	**2012**	**2013**	**2012**
Noninterest expense		$ 1		$ 9
Income (loss) before income taxes		(1)		(9)
Income taxes			**$ 2**	(3)
Income (loss) from discontinued operations, net of taxes		$ (1)	**$ (2)**	$ (6)

The discontinued assets and liabilities of Austin included on the balance sheet are as follows:

in millions	**June 30, 2013**	**December 31, 2012**	**June 30, 2012**
Cash and due from banks	**$ 21**	$ 22	$ 22
Total assets	**$ 21**	$ 22	$ 22
Accrued expense and other liabilities		$ 1	
Total liabilities		$ 1	

Table of Contents

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

in millions	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Net interest income	**$ 26**	$ 30	**$ 54**	$ 61
Provision for loan and lease losses	**(2)**	2	**4**	6
Net interest income (expense) after provision for loan and lease losses	**28**	28	**50**	55
Noninterest income	**10**	26	**23**	38
Noninterest expense	**29**	31	**57**	72
Income (loss) before income taxes	**9**	23	**16**	21
Income taxes	**4**	9	**8**	8
Income (loss) from discontinued operations, net of taxes [(a)]	**$ 5**	$ 14	**$ 8**	$ 13

(a) Includes after-tax charges of $11 million and $12 million for the three-month periods ended June 30, 2013 and 2012, respectively, and $21 million and $26 million for the six-month periods ended June 30, 2013 and 2012, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

The combined assets and liabilities of the discontinued operations are as follows:

in millions	June 30, 2013	December 31, 2012	June 30, 2012
Cash and due from banks	**$ 22**	$ 23	$ 23
Trust loans at fair value	**2,317**	2,369	2,580
Portfolio loans at fair value	**151**	157	73
Loans, net of unearned income of ($5), ($5), and ($2)	**2,524**	2,675	2,830
Less: Allowance for loan and lease losses	**41**	55	79
Net loans	**4,951**	5,146	5,404
Trust accrued income and other assets at fair value	**24**	26	31
Accrued income and other assets	**87**	87	87
Total assets	**$ 5,084**	$ 5,282	$ 5,545

Trust accrued expense and other liabilities at fair value	**$**	**21**	$	22	$	28
Accrued expense and other liabilities		**30**		39		27
Trust securities at fair value		**2,118**		2,159		2,373
Total liabilities	**$**	**2,169**	$	2,220	$	2,428

70

Table of Contents

12. Securities Financing Activities

We enter into repurchase and reverse repurchase agreements and securities borrowed transactions (securities financing agreements) primarily to finance our inventory positions, acquire securities to cover short positions, accommodate customers financing needs, and to settle other securities obligations. We account for these securities financing agreements as collateralized financing transactions. Repurchase and reverse repurchase agreements are recorded on the balance sheet at the amounts at which the securities will be subsequently sold or repurchased. Securities borrowed transactions are recorded on the balance sheet at the amounts of cash collateral advanced. While the right of setoff exists for our securities financing agreements, the assets and liabilities are reported on a gross basis. Repurchase agreements and securities borrowed transactions are included in Accrued income and other assets and reverse repurchase agreements in Federal funds purchased and securities sold under repurchase agreements on the balance sheet.

The following table summarizes our securities financing agreements as of June 30, 2013, December 31, 2012, and June 30, 2012:

	June 30, 2013			
in millions	Gross Amount Presented in Balance Sheet	Netting Adjustments [(a)]	Collateral [(b)]	Net Amounts
Offsetting of financial assets:				
Reverse repurchase agreements	$ 334	$ (93)	$ (235)	$ 6
Securities borrowed	1		(1)	
Total	$ 335	$ (93)	$ (236)	$ 6
Offsetting of financial liabilities:				
Repurchase agreements	$ 350	$ (93)	$ (257)	
Total	$ 350	$ (93)	$ (257)	

	December 31, 2012			
in millions	Gross Amount Presented in	Netting Adjustments [(a)]	Collateral [(b)]	Net Amounts

	Balance Sheet						
Offsetting of financial assets:							
Reverse repurchase agreements	$ 271	$	(95)	$	(172)	$	4
Securities borrowed							
Total	$ 271	$	(95)	$	(172)	$	4
Offsetting of financial liabilities:							
Repurchase agreements	$ 228	$	(95)	$	(133)		
Total	$ 228	$	(95)	$	(133)		

	June 30, 2012						
in millions	**Gross Amount Presented in Balance Sheet**		**Netting Adjustments (a)**		**Collateral (b)**		**Net Amounts**
Offsetting of financial assets:							
Reverse repurchase agreements	$ 338	$	(272)	$	(62)	$	4
Securities borrowed	5				(5)		
Total	$ 343	$	(272)	$	(67)	$	4
Offsetting of financial liabilities:							
Repurchase agreements	$ 481	$	(272)	$	(209)		
Total	$ 481	$	(272)	$	(209)		

(a) Netting adjustments take into account the impact of master netting agreements that allow us to settle with a single counterparty on a net basis.

(b) These adjustments take into account the impact of bilateral collateral agreements that allow us to offset the net positions with the related collateral. The application of collateral cannot reduce the net position below zero. Therefore, any excess collateral is not reflected above.

Table of Contents

Like other financing transactions, securities financing agreements contain an element of credit risk. To mitigate and manage credit risk exposure, we generally enter into master netting agreements and other collateral arrangements that give us the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. Additionally, we establish and monitor limits on our counterparty credit risk exposure by product type. For the reverse repurchase agreements, we monitor the value of the underlying securities we have received from counterparties and either request additional collateral or return a portion of the collateral based on the value of those securities. We generally hold collateral in the form of highly rated securities issued by the U.S. Treasury and fixed income securities. In addition, we may need to provide collateral to counterparties under our repurchase agreements and securities borrowed transactions. In general, the collateral we pledge and receive can be sold or repledged by the secured parties.

Table of Contents

13. Employee Benefits

Pension Plans

Effective December 31, 2009, we amended our cash balance pension plan and other defined benefit plans to freeze all benefit accruals and close the plans to new employees. We will continue to credit participants existing account balances for interest until they receive their plan benefits. We changed certain pension plan assumptions after freezing the plans.

The components of net pension cost (benefit) for all funded and unfunded plans are as follows:

in millions	Three months ended June 30, **2013**	**2012**	Six months ended June 30, **2013**	**2012**
Interest cost on PBO	**$ 10**	$ 12	**$ 20**	$ 24
Expected return on plan assets	**(17)**	(18)	**(34)**	(36)
Amortization of losses	**5**	4	**10**	8
Net pension cost (benefit)	**$ (2)**	$ (2)	**$ (4)**	$ (4)

Other Postretirement Benefit Plans

We sponsor a retiree healthcare plan in which all employees age 55 with five years of service (or employees age 50 with 15 years of service who are terminated under conditions that entitle them to a severance benefit) are eligible to participate. Participant contributions are adjusted annually. Key may provide a subsidy toward the cost of coverage for certain employees hired before 2001 with a minimum of 15 years of service at the time of termination. We use a separate VEBA trust to fund the retiree healthcare plan.

We also maintained a death benefit plan that provided a death benefit for a very limited number of (i) former Key employees who retired from their employment with Key prior to 1994; (ii) former Key employees who elect a grandfathered pension benefit under the KeyCorp Cash Balance Pension Plan; and (iii) Key employees who otherwise were provided a historical death benefit at the time of their termination. The death benefit plan was non-contributory, and we used a separate VEBA trust to fund the plan. In the fourth quarter of 2012, we used the assets of the VEBA trust to purchase insurance through a policy issued by a third-party insurance provider to fully fund the death benefits under the plan. All grandfathered employees death benefits are fully funded, administered, and paid by the third-party insurance provider, and the insurance company has accepted all funding obligations and administrative liability for the grandfathered employees death benefits. We accordingly terminated the death benefit plan and the VEBA effective December 31, 2012.

The components of net postretirement benefit cost for all funded and unfunded plans are as follows:

in millions	Three months ended June 30, **2013**	**2012**	Six months ended June 30, **2013**	**2012**

Interest cost on APBO	**$**	**1**	$	1	**$**	**2**	$	2
Expected return on plan assets		**(1)**		(1)		**(2)**		(2)
Net postretirement benefit cost								

The Patient Protection and Affordable Care Act and Education Reconciliation Act of 2010, which were both signed into law in March 2010, changed the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. As a result of these laws, these subsidy payments became taxable in tax years beginning after December 31, 2012. The accounting guidance applicable to income taxes required the impact of a change in tax law to be immediately recognized in the period that includes the enactment date. The changes to the tax law regarding these subsidies did not affect us as we did not have a deferred tax asset recorded for Medicare Part D subsidies received.

Table of Contents

14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries

We own the outstanding common stock of business trusts formed by us that issued corporation-obligated mandatorily redeemable trust preferred securities. The trusts used the proceeds from the issuance of their trust preferred securities and common stock to buy debentures issued by KeyCorp. These debentures are the trusts only assets; the interest payments from the debentures finance the distributions paid on the mandatorily redeemable trust preferred securities.

We unconditionally guarantee the following payments or distributions on behalf of the trusts:

¿ required distributions on the trust preferred securities;

¿ the redemption price when a capital security is redeemed; and

¿ the amounts due if a trust is liquidated or terminated.

The recently-issued Regulatory Capital Rules, discussed in the Supervision and regulation portion of this report, implement a phase-out of trust preferred securities as Tier 1 capital, consistent with the requirements of the Dodd-Frank Act. For standardized approach banks such as Key, the phase-out period begins on January 1, 2015, and by 2016 will require us to treat our mandatorily redeemable trust preferred securities as Tier 2 capital.

As of June 30, 2013, the trust preferred securities issued by the KeyCorp capital trusts represent $339 million, or 3.4% of our total qualifying Tier 1 capital, net of goodwill.

The trust preferred securities, common stock and related debentures are summarized as follows:

dollars in millions	Trust Preferred Securities, Net of Discount (a)	Common Stock	Principal Amount of Debentures, Net of Discount (b)	Interest Rate of Trust Preferred Securities and Debentures (c)	Maturity of Trust Preferred Securities and Debentures
June 30, 2013					
KeyCorp Capital I	$ 156	$ 6	$ 162	1.024 %	2028
KeyCorp Capital II	103	4	107	6.875	2029
KeyCorp Capital III	135	4	139	7.750	2029
Total	$ 394	$ 14	$ 408	4.858 %	-

December 31, 2012	$	417	$	14	$	431	5.025	%	-
June 30, 2012 (d)	$	1,201	$	19	$	1,220	6.616	%	-

(a) The trust preferred securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of trust preferred securities carries an interest rate identical to that of the related debenture. Certain trust preferred securities include basis adjustments related to fair value hedges totaling $54 million at June 30, 2013, $77 million at December 31, 2012, and $155 million at June 30, 2012. See Note 7 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

(b) We have the right to redeem these debentures. If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (a) the principal amount, plus any accrued but unpaid interest or (b) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points (25 basis points or 50 basis points in the case of redemption upon either a tax event or a capital treatment event for KeyCorp Capital III), plus any accrued but unpaid interest. When debentures are redeemed in response to tax or capital treatment events, the redemption price for KeyCorp Capital II and KeyCorp Capital III generally is slightly more favorable to us. The principal amount of certain debentures includes basis adjustments related to fair value hedges totaling $54 million at June 30, 2013, $77 million at December 31, 2012, and $155 million at June 30, 2012. See Note 7 for an explanation of fair value hedges. The principal amount of debentures, net of discounts, is included in Long-Term Debt on the balance sheet.

(c) The interest rates for the trust preferred securities issued by KeyCorp Capital II and KeyCorp Capital III are fixed. KeyCorp Capital I has a floating interest rate equal to three-month LIBOR plus 74 basis points that reprices quarterly. The total interest rates are weighted-average rates.

(d) Includes the trust preferred securities issued by KeyCorp Capital VII and KeyCorp Capital X, which were redeemed in full on July 12, 2012. The aggregate liquidation preference totaled $707 million.

Table of Contents

15. Contingent Liabilities and Guarantees

Legal Proceedings

The following discussion provides information on material developments in our legal proceedings during the second quarter of 2013. Additional information on our legal proceedings is available on pages 186-188 of our 2012 Form 10-K, Note 16 (Commitments, Contingent Liabilities and Guarantees) under the heading Legal Proceedings, and in our Form 10-Q for the quarter ended March 31, 2013, Note 15 (Contingent Liabilities and Guarantees) under the heading Legal Proceedings on page 72.

Metyk litigation. As previously reported, two putative class actions were filed on September 21, 2010 in the United States District Court for the Northern District of Ohio (the Northern District of Ohio). The plaintiffs in these cases sought to represent a class of all participants in our 401(k) Savings Plan and alleged that the defendants in the lawsuit breached fiduciary duties owed to them under ERISA. These two putative class action lawsuits were substantively consolidated with each other in a proceeding styled *Thomas Metyk, et al. v. KeyCorp, et al.* (Metyk). A substantially similar class action, *Taylor v. KeyCorp, et al.*, was dismissed from the Northern District of Ohio on August 12, 2010. This dismissal was affirmed by the United States Court of Appeals for the Sixth Circuit (the Sixth Circuit) on May 25, 2012. On January 29, 2013, the Northern District of Ohio entered its order granting the defendants motion to dismiss the plaintiffs consolidated complaint for failure to state a claim and entered its final judgment terminating the Metyk proceeding. On February 19, 2013, plaintiffs filed a motion to set aside the final judgment and to permit the plaintiffs to file an amended complaint. On April 30, 2013, the Northern District of Ohio denied the motion to set aside the final judgment. On May 6, 2013 plaintiffs filed their notice of appeal.

Checking Account Overdraft Litigation. As previously reported, KeyBank was named a defendant in a putative class action seeking to represent a national class of KeyBank customers allegedly harmed by KeyBank s overdraft practices. The case was transferred and consolidated for purposes of pretrial discovery and motion proceedings to a multidistrict proceeding styled *In Re: Checking Account Overdraft Litigation* pending in the United States District Court for the Southern District of Florida. KeyBank filed a notice of appeal in regard to the denial of its motion to compel arbitration. On August 21, 2012, the United States Court of Appeals for the Eleventh Circuit vacated the district court s order denying KeyBank s motion to compel arbitration and remanded the case for further consideration. On June 21, 2013, KeyBank filed with the district court its renewed motion to compel arbitration and stay or dismiss litigation. At this stage of the proceedings it is too early to determine if the matter would reasonably be expected to have a material adverse effect on our financial condition.

Other litigation. In the ordinary course of business, we are subject to various other litigation, investigations and administrative proceedings. These other matters may involve claims for substantial monetary relief. Due to the complex nature of these various other matters, it may be years before some matters are resolved. While it is impossible to ascertain the ultimate resolution or range of financial liability, based on information presently known to us, we do not believe there is any other matter to which we are a party, or involving any of our properties that, individually or in the aggregate, would reasonably be expected to have a material adverse effect on our financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter, or a combination of matters, may be material to our results of operations for a particular period, depending upon the size of the loss or our income for that particular period.

Guarantees

We are a guarantor in various agreements with third parties. The following table shows the types of guarantees that we had outstanding at June 30, 2013. Information pertaining to the basis for determining the liabilities recorded in connection with these guarantees is included in Note 1 (Summary of Significant Accounting Policies) under the heading Guarantees on page 128 of our 2012 Form 10-K.

June 30, 2013 *in millions*	Maximum Potential Undiscounted Future Payments	Liability Recorded
Financial guarantees:		
Standby letters of credit	$ 10,764	$ 79
Recourse agreement with FNMA	1,247	6
Return guarantee agreement with LIHTC investors	17	17
Written put options [(a)]	2,192	43
Default guarantees		
Total	$ 14,220	$ 145

(a) The maximum potential undiscounted future payments represent notional amounts of derivatives qualifying as guarantees.

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0-30% probability of payment), moderate (31-70% probability of payment) or high (71-100% probability of payment) to assess the payment/performance risk, and have determined that the payment/performance risk associated with each type of guarantee outstanding at June 30, 2013, is low.

Standby letters of credit. KeyBank issues standby letters of credit to address clients financing needs. These instruments obligate us to pay a specified third party when a client fails to repay an outstanding loan or debt instrument or fails to perform some contractual nonfinancial obligation. Any amounts drawn under standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the same credit risk to us as a loan. At June 30, 2013, our standby letters of credit had a remaining weighted-average life of 3.0 years, with remaining actual lives ranging from less than one year to as many as ten years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing program. FNMA delegates responsibility for originating, underwriting, and servicing mortgages, and we assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximates the fair value of our liability. At June 30, 2013, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of 6.6 years, and the unpaid principal balance outstanding of loans sold by us as a participant was $3.9 billion. As shown in the preceding table, the maximum potential amount of undiscounted future payments that we could be required to make under this program is equal to approximately one-third of the principal balance of loans outstanding at June 30, 2013. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan; any loss we incur could be offset by the amount of any recovery from the collateral.

Return guarantee agreement with LIHTC investors. KAHC, a subsidiary of KeyBank, offered limited partnership interests to qualified investors. Partnerships formed by KAHC invested in low-income residential rental properties that qualify for federal low income housing tax credits under Section 42 of the Internal Revenue Code. In certain partnerships, investors paid a fee to KAHC for a guaranteed return that is based on the financial performance of the property and the property s confirmed LIHTC status throughout a fifteen-year compliance period. Typically, KAHC fulfills these guaranteed returns by distributing tax credits and deductions associated with the specific properties. If KAHC defaults on its obligation to provide the guaranteed return, KeyBank is obligated to make any necessary payments to investors. No recourse or collateral is available to offset our guarantee obligation other than the underlying income stream from the properties and the residual value of the operating partnership interests.

As shown in the previous table, KAHC maintained a reserve in the amount of $17 million at June 30, 2013, which we believe will be sufficient to cover estimated future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounted future payments due to investors for the return on and of their investments.

These guarantees have expiration dates that extend through 2018, but KAHC has not formed any new partnerships under this program since October 2003. Additional information regarding these partnerships is included in Note 9 (Variable Interest Entities).

Written put options. In the ordinary course of business, we write interest rate caps and floors for commercial loan clients that have variable and fixed rate loans, respectively, with us and wish to mitigate their exposure to changes in interest rates. At June 30, 2013, our written put options had an average life of 2.0 years. These instruments are considered to be guarantees, as we are required to make payments to the counterparty (the commercial loan client) based on changes in an underlying variable that is related to an asset, a liability, or an equity security that the client holds (i.e., the commercial loan client). We are obligated to pay the client if the applicable benchmark interest rate is above or below a specified level (known as the strike rate). These written put options are accounted for as derivatives at fair value, as further discussed in Note 7 (Derivatives and Hedging Activities). We typically mitigate our potential future payment obligations by entering into offsetting positions with third parties.

Written put options where the counterparty is a broker-dealer or bank are accounted for as derivatives at fair value but are not considered guarantees since these counterparties typically do not hold the underlying instruments. In addition, we are a purchaser and seller of credit derivatives, which are further discussed in Note 7.

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor (typically a client) fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees for one of two possible reasons: either the risk profile of the debtor should provide an investment return, or we are supporting our underlying investment in the debtor. The terms of these default guarantees range from less than one year to as many as 5.9 years; some default guarantees do not have a contractual end date. Although no collateral is held, we would receive a pro rata share should the third party collect some or all of the amounts due from the debtor.

Other Off-Balance Sheet Risk

Other off-balance sheet risk stems from financial instruments that do not meet the definition of a guarantee as specified in the applicable accounting guidance, and from other relationships.

Liquidity facilities that support asset-backed commercial paper conduits. At June 30, 2013, we did not have any liquidity facilities remaining outstanding with any unconsolidated third-party commercial paper conduits. Our prior liquidity facility, which expired during the second quarter of 2012, obligated us to provide aggregate funding of up to a certain amount in the event that a credit market disruption or other factors prevented the conduit from issuing commercial paper.

Indemnifications provided in the ordinary course of business. We provide certain indemnifications, primarily through representations and warranties in contracts that we execute in the ordinary course of business in connection with loan sales and other ongoing activities, as well as in connection with purchases and sales of businesses. We maintain reserves, when appropriate, with respect to liability that reasonably could arise as a result of these indemnities.

Intercompany guarantees. KeyCorp and certain of our affiliates are parties to various guarantees that facilitate the ongoing business activities of other affiliates. These business activities encompass issuing debt, assuming certain lease and insurance obligations, purchasing or issuing investments and securities, and engaging in certain leasing transactions involving clients.

Table of Contents

16. Accumulated Other Comprehensive Income

Our changes in accumulated other comprehensive income for the three and six months ended June 30, 2013, are as follows:

in millions		Unrealized gains (losses) on available for sale securities		Unrealized gains (losses) on derivative financial instruments		Foreign currency translation adjustment		Net pension and postretirement benefit costs		Total
Balance at December 31, 2012	$	229	$	18	$	55	$	(426)	$	(124)
Other comprehensive income before reclassification		**(147)**		**(22)**		**(10)**		**6**		**(173)**
Amounts reclassified from accumulated other comprehensive income [(a)]				**(17)**		**(4)**				**(21)**
Net current-period other comprehensive income		**(147)**		**(39)**		**(14)**		**6**		**(194)**
Balance at June 30, 2013	**$**	**82**	**$**	**(21)**	**$**	**41**	**$**	**(420)**	**$**	**(318)**
Balance at March 31, 2013	$	207	$	10	$	44	$	(423)	$	(162)
Other comprehensive income before reclassification		**(125)**		**(24)**		**(3)**		**3**		**(149)**
Amounts reclassified from accumulated other comprehensive income [(a)]				**(7)**						**(7)**
Net current-period other comprehensive income		**(125)**		**(31)**		**(3)**		**3**		**(156)**
Balance at June 30, 2013	**$**	**82**	**$**	**(21)**	**$**	**41**	**$**	**(420)**	**$**	**(318)**

(a) See table below for details about these reclassifications.

Our reclassifications out of accumulated other comprehensive income for the three and six months ended June 30, 2013 are as follows:

Six months ended June 30, 2013 *in millions*	**Amount Reclassified from Accumulated Other Comprehensive Income**		**Affected Line Item in the Statement Where Net Income is Presented**
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	35	Interest income Loans
Interest rate		(4)	Interest expense Long term debt
Foreign exchange contracts		(3)	Other income
		28	Income (loss) from continuing operations before income taxes
		11	Income taxes
	$	17	Income (loss) from continuing operations
Foreign currency translation adjustment			
	$	7	Corporate services income
		7	Income (loss) from continuing operations before income taxes
		3	Income taxes
	$	4	Income (loss) from continuing operations

Three months ended June 30, 2013 *in millions*	**Amount Reclassified from Accumulated Other Comprehensive Income**		**Affected Line Item in the Statement Where Net Income is Presented**
Unrealized gains (losses) on derivative financial instruments			
Interest rate	$	13	Interest income Loans
Interest rate		(1)	Interest expense Long term debt
Foreign exchange contracts			Other income
		12	

			Income (loss) from continuing operations before income taxes
		5	Income taxes
	$	7	Income (loss) from continuing operations

78

Table of Contents

17. Shareholders Equity

Comprehensive Capital Plan

During the second quarter of 2013, we completed $112 million of Common Share repurchases on the open market under our 2013 capital plan. As previously reported and as authorized by Key s Board of Directors and pursuant to our 2013 capital plan submitted to and not objected to by the Federal Reserve, we have authority to repurchase up to $426 million of our Common Shares in the open market or through privately negotiated transactions. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2014.

As previously reported, on February 21, 2013, we announced an agreement to sell our investment management subsidiary, Victory Capital Management, and our broker-dealer affiliate, Victory Capital Advisors, to a private equity fund. The after-tax realized gain which was originally estimated to be $145 million to $155 million is now expected to be in the range of $100 million to $115 million. The cash portion of the gain will be between $75 million and $90 million. The difference from the original estimate is due to higher than expected client attrition that has taken place during the consent process. We have received no objection from the Federal Reserve to use the cash portion of the gain for Common Share repurchases. The Board intends to consider these additional Common Share repurchases at its September meeting.

Our 2013 capital plan also proposed an increase in our quarterly Common Share dividend from $.05 to $.055 per share. Consistent with the 2013 capital plan, the Board, at its May and July 2013 meetings, declared quarterly dividends of $.055 per Common Share for the second and third quarters of 2013, respectively.

Table of Contents

18. Line of Business Results

The specific lines of business that constitute each of the major business segments (operating segments) are described below.

Key Community Bank

Key Community Bank serves individuals and small to mid-sized businesses through its 13-state branch network.

Individuals are provided branch-based deposit and investment products, personal finance services and loans, including residential mortgages, home equity, credit card and various types of installment loans. In addition, financial, estate and retirement planning, asset management services, and Delaware Trust capabilities are offered to assist high-net-worth clients with their banking, trust, portfolio management, insurance, charitable giving, and related needs.

Small businesses are provided deposit, investment and credit products, and business advisory services. Mid-sized businesses are provided products and services that include commercial lending, cash management, equipment leasing, investment and employee benefit programs, succession planning, access to capital markets, derivatives, and foreign exchange.

Key Corporate Bank

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in six industry sectors: consumer, energy, healthcare, industrial, public sector and real estate. Key Corporate Bank delivers a broad product 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 also delivers many of its product capabilities to clients of Key Community Bank.

Other Segments

Other Segments consist of Corporate Treasury, Community Development, Principal Investing and various exit portfolios.

Reconciling Items

Total assets included under Reconciling Items primarily represent the unallocated portion of nonearning assets of corporate support functions. Charges related to the funding of these assets are part of net interest income and are allocated to the business segments through noninterest expense. Reconciling Items also includes intercompany eliminations and certain items that are not allocated to the business segments because they do not reflect their normal operations.

The table on the following pages shows selected financial data for our two major business segments for the three- and six- month periods ended June 30, 2013, and 2012.

The information was derived from the internal financial reporting system we use to monitor and manage our financial performance. GAAP guides financial accounting, but there is no authoritative guidance for management accounting the way we use our judgment and experience to make reporting decisions. Consequently, the line of business results we report may not be comparable to line of business results presented by other companies.

The selected financial data are based on internal accounting policies designed to compile results on a consistent basis and in a manner that reflects the underlying economics of the businesses. In accordance with our policies:

¿ Net interest income is determined by assigning a standard cost for funds used or a standard credit for funds provided based on their assumed maturity, prepayment and/or repricing characteristics.

¿ Indirect expenses, such as computer servicing costs and corporate overhead, are allocated based on assumptions regarding the extent to which each line of business actually uses the services.

¿ The consolidated provision for loan and lease losses is allocated among the lines of business primarily based on their actual net loan charge-offs, adjusted periodically for loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology that we use to estimate our consolidated allowance for loan and lease losses. This methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses on page 120 of our 2012 Form 10-K.

Table of Contents

- Income taxes are allocated based on the statutory federal income tax rate of 35% (adjusted for tax-exempt interest income, income from corporate-owned life insurance and tax credits associated with investments in low-income housing projects) and a blended state income tax rate (net of the federal income tax benefit) of 2.2%.

- Capital is assigned to each line of business based on regulatory requirements.

Developing and applying the methodologies that we use to allocate items among our lines of business is a dynamic process. Accordingly, financial results may be revised periodically to reflect enhanced alignment of expense base allocation drivers, changes in the risk profile of a particular business, or changes in our organizational structure.

Table of Contents

Three months ended June 30, *dollars in millions*	Key Community Bank		Key Corporate Bank	
	2013	**2012**	**2013**	**2012**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 357**	$ 356	**$ 189**	$ 190
Noninterest income	**198**	181	**187**	181
Total revenue (TE) [(a)]	**555**	537	**376**	371
Provision (credit) for loan and lease losses	**41**	(4)	**(10)**	4
Depreciation and amortization expense	**19**	9	**11**	15
Other noninterest expense	**437**	446	**191**	198
Income (loss) from continuing operations before income taxes (TE)	**58**	86	**184**	154
Allocated income taxes and TE adjustments	**22**	32	**67**	56
Income (loss) from continuing operations	**36**	54	**117**	98
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**36**	54	**117**	98
Less: Net income (loss)				3

attributable to noncontrolling interests								
Net income (loss) attributable to Key	**$**	**36**	$	54	**$**	**117**	$	95
AVERAGE BALANCES [b]								
Loans and leases	**$**	**29,161**	$	26,413	**$**	**20,133**	$	18,541
Total assets [a]		**31,570**		28,695		**23,965**		22,709
Deposits		**49,473**		47,946		**15,606**		12,414
OTHER FINANCIAL DATA								
Net loan charge-offs [b]	**$**	**42**	$	46	**$**	**(6)**	$	9
Return on average allocated equity [b]		**5.02 %**		7.82 %		**28.79 %**		22.00 %
Return on average allocated equity		**5.02**		7.82		**28.79**		22.00
Average full-time equivalent employees [c]		**8,437**		8,742		**1,950**		2,028

Six months ended June 30, *dollars in millions*		**Key Community Bank** 2013		2012		**Key Corporate Bank** 2013		2012
SUMMARY OF OPERATIONS								
Net interest income (TE)	**$**	**719**	$	713	**$**	**376**	$	386
Noninterest income		**385**		356		**380**		364
Total revenue (TE) [a]		**1,104**		1,069		**756**		750
Provision (credit) for loan		**99**				**(6)**		17

and lease losses								
Depreciation and amortization expense		**39**		19		**23**		31
Other noninterest expense		**858**		873		**389**		405
Income (loss) from continuing operations before income taxes (TE)		**108**		177		**350**		297
Allocated income taxes and TE adjustments		**40**		66		**128**		108
Income (loss) from continuing operations		**68**		111		**222**		189
Income (loss) from discontinued operations, net of taxes								
Net income (loss)		**68**		111		**222**		189
Less: Net income (loss) attributable to noncontrolling interests								3
Net income (loss) attributable to Key	**$**	**68**	$	111	**$**	**222**	$	186
AVERAGE BALANCES [b]								
Loans and leases	**$**	**29,069**	$	26,193	**$**	**20,089**	$	18,568
Total assets [a]		**31,522**		28,454		**23,915**		22,783
Deposits		**49,411**		47,723		**14,792**		11,987
OTHER FINANCIAL DATA								
Net loan charge-offs [b]	**$**	**89**	$	92	**$**	**(7)**	$	34

Return on average allocated equity (b)	**4.77 %**	7.93 %	**27.58 %**	20.91 %
Return on average allocated equity	**4.77**	7.93	**27.58**	20.91
Average full-time equivalent employees (c)	**8,632**	8,724	**1,938**	2,025

(a) Substantially all revenue generated by our major business segments is derived from clients that reside in the United States. Substantially all long-lived assets, including premises and equipment, capitalized software, and goodwill held by our major business segments, are located in the United States.

(b) From continuing operations.

(c) The number of average full-time equivalent employees has not been adjusted for discontinued operations.

82

Table of Contents

	Total Segments		Reconciling Items		
2012	2013	2012	2013	2012	2013
(4)	$ 586	$ 542		$ 2	$ 586
98	431	460	$ (2)	(3)	429
94	1,017	1,002	(2)	(1)	1,015
21	27	21	1		28
2	32	26	33	33	65
23	645	667	1	(33)	646
48	313	288	(37)	(1)	276
(3)	90	85	(13)	(25)	77
51	223	203	(24)	24	199
			5	14	5
51	223	203	(19)	38	204
2		5			
49	$ 223	$ 198	$ (19)	$ 38	$ 204
4,425	$ 52,642	$ 49,379	$ 54	$ 67	$ 52,696
28,797	83,471	80,201	577	679	84,048
811	65,837	61,171	(396)	(108)	65,441
22	$ 45	$ 77			$ 45
24.21 %	17.22 %	14.94 %	(1.88) %	2.02 %	7.74
24.21	17.22	14.94	(1.49)	3.20	7.93
54	10,441	10,824	4,558	4,631	14,999

	Total Segments		Reconciling Items		
2012	2013	2012	2013	2012	2013
(1)	$ 1,174	$ 1,098	$ 1	$ 5	$ 1,175
189	855	909	(1)	(10)	854
188	2,029	2,007		(5)	2,029
46	81	63	2		83
5	65	55	66	76	131
48	1,283	1,326	(22)	(85)	1,261

89	**600**	563	**(46)**	4	**554**
(13)	**171**	161	**(18)**	(22)	**153**
102	**429**	402	**(28)**	26	**401**
			8	13	**8**
102	**429**	402	**(20)**	39	**409**
2	**1**	5			**1**
100	**$ 428**	$ 397	**$ (20)**	$ 39	**$ 408**
4,624	**$ 52,612**	$ 49,385	**$ 49**	$ 53	**$ 52,661**
28,676	**82,806**	79,913	**579**	739	**83,385**