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

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KEYCORP

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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.

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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).

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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).

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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).

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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			
								(53)	
								8	
								(4)	
								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).

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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).

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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).

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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).

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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.

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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,				Six months ended June 30,			
		2013		**2012**		**2013**		**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.

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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

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

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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.

0, 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		$ 23
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	$ 37
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	$ 1(
oans	$ 52,099	$ 183	$ 68	$ 80	$ 652	$ 983	$ 19	$ 5:

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	$ 2:
ercial tate:								
ercial ge	7,556	21	11	9	120	161	3	
uction	943	1	2	1	56	60		
ercial tate	8,499	22	13	10	176	221	3	
ercial ng	4,772	88	31	8	16	143		
ercial	$ 36,301	$ 166	$ 78	$ 40	$ 291	$ 575	$ 4	$ 3(

state ntial ge	$ 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		
ome 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.

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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	
YPE							
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:

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Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [a]

cial, financial and gricultural		RE Commercial		RE Construction		Commercial Lease		
013	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.

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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.

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.

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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	F
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:

	Individually Evaluated for Impairment	Allowance 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.

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

e 30,	Allowance[a]			Outstanding[a]	
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	1,99
e y:					
munity t	3	77	9,601	11	9,59
r	1	23	479	6	4'
l home y loans	4	100	10,080	17	10,0
sumer r Key munity t	1	33	1,263	2	1,26

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

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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.

¿ 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

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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.

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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.

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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

	Level 1		Level 2		Level 3		Total
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.

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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.

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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	

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	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 In
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:

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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

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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).

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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%)

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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

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	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.

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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.

	June 30, 2013			
in millions	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**

	December 31, 2012			
in millions	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

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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**	**Gros 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.

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 *in millions*	**Securities Available for Sale** Amortized Cost	Fair Value	**Held-to-Maturity Securities** 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

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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:

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June 30, 2013			December 31, 2012			June 30, 2012	
	Fair Value			Fair Value			Fair
Notional Amount	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

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		

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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.

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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**		
		Average	**Payment /**		**Average**	**Payment /**		**Average**	
	Notional	**Term**	**Performance**	**Notional**	**Term**	**Performance**	**Notional**	**Term**	**Pe**
lions	**Amount**	**(Years)**	**Risk**	**Amount**	**(Years)**	**Risk**	**Amount**	**(Years)**	
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.

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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:

in millions	Six months ended June 30, 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		**Significant**	**Range**
dollars in millions	**Valuation Technique**	**Unobservable Input**	**(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.

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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.

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.

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.

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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.

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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	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 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.

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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.

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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.

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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	

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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

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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:

in millions	June 30, 2013			
	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)**	

in millions	December 31, 2012			
	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.

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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.

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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.

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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.

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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.

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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

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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.

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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.

- ¿ 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.

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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**		**Key Corporate Bank**	
	2013	**2012**	**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.

	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**
780	**64,895**	60,490	**(352)**	(143)	**64,543**
51	**$ 94**	$ 177		$ 1	**$ 94**
24.26 %	**16.60 %**	14.70 %	**(1.10) %**	1.13 %	**7.81**
24.26	**16.60**	14.70	**(.79)**	1.70	**7.96**
53	**10,622**	10,802	**4,575**	4,628	**15,197**

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

KeyCorp

We have reviewed the consolidated balance sheets of KeyCorp and subsidiaries (Key) as of June 30, 2013 and 2012, the related consolidated statements of income and comprehensive income for the three- and six-month periods ended June 30, 2013 and 2012, and the related consolidated statements of changes in equity and cash flows for the six-month periods ended June 30, 2013 and 2012. These financial statements are the responsibility of Key s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Key as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended not presented herein, and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Cleveland, Ohio

/s/ Ernst & Young LLP

August 5, 2013

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

Introduction

This section reviews the financial condition and results of operations of KeyCorp and its subsidiaries for the quarterly and year to date periods ended June 30, 2013 and 2012. Some tables may include additional periods to comply with disclosure requirements or to illustrate trends in greater depth. When you read this discussion, you should also refer to the consolidated financial statements and related notes in this report. The page locations of specific sections and notes that we refer to are presented in the table of contents.

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

Terminology

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

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

¿ We use the phrase ***continuing operations*** in this document to mean all of our businesses other than the education lending business, Victory and Austin. The education lending business and Austin have been accounted for as ***discontinued operations*** since 2009. Victory was moved to held for sale and classified as a ***discontinued operation*** in our first quarter 2013 financial reporting as a result of the sale of this business that was announced on February 21, 2013.

¿ Our ***exit loan portfolios*** are separate from our ***discontinued operations***. These portfolios, which are in a run-off mode, stem from product lines we decided to cease because they no longer fit with our corporate strategy. These exit loan portfolios are included in ***Other Segments.***

¿ We engage in ***capital markets activities*** primarily through business conducted by our Key Corporate Bank segment. These activities encompass a variety of products and services. Among other things, we trade securities as a dealer, enter into derivative contracts (both to accommodate clients financing needs and to mitigate certain risks), and conduct transactions in foreign currencies (both to accommodate clients needs and to benefit from fluctuations in exchange rates).

¿ For regulatory purposes, capital is divided into two classes. Federal regulations currently prescribe that at least one-half of a bank or BHC s ***total risk-based capital*** must qualify as ***Tier 1 capital***. Both total and Tier 1 capital serve as bases for several measures of capital adequacy, which is an important indicator of financial stability and condition. As described in the section entitled Introduction that begins on page 37 of our 2012 Form 10-K, the regulators conduct a review of capital adequacy for each of the country s nineteen largest banking institutions, including KeyCorp. This regulatory assessment began in 2009 and has continued into 2013. As part of this capital

adequacy review, banking regulators evaluated a component of Tier 1 capital, known as ***Tier 1 common equity***. For a detailed explanation of total capital, Tier 1 capital and Tier 1 common equity and how they are calculated see the section entitled Capital.

Additionally, a comprehensive list of the acronyms and abbreviations used throughout this discussion is included in Note 1 (Basis of Presentation).

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Selected financial data

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

Figure 1. Selected Financial Data

	2013		2012			Six months ended June 30,	
ars in millions, ept per share ounts	**Second**	**First**	**Fourth**	**Third**	**Second**	**2013**	**201**
R THE RIOD							
rest income	$ **657**	$ **667**	$ 688	$ 671	$ 662	$ **1,324**	$ 1,346
rest expense	**76**	**84**	87	99	124	**160**	255
interest income	**581**	**583**	601	572	538	**1,164**	1,091
vision (credit) for and lease losses	**28**	**55**	57	109	21	**83**	63
interest income	**429**	**425**	439	518	457	**854**	899
interest expense	**711**	**681**	734	712	693	**1,392**	1,372
ome (loss) from tinuing rations before ome taxes	**271**	**272**	249	269	281	**543**	555
ome (loss) from tinuing rations butable to Key	**199**	**201**	196	216	222	**400**	423
ome (loss) from ontinued rations, net of s[(a)]	**5**	**3**	7	3	14	**8**	13
income (loss) butable to Key	**204**	**204**	203	219	236	**408**	436
ome (loss) from tinuing rations butable to Key mon reholders	**193**	**196**	190	211	217	**389**	412
ome (loss) from ontinued rations, net of s[(a)]	**5**	**3**	7	3	14	**8**	13
income (loss)	**198**	**199**	197	214	231	**397**	425

butable to Key mmon reholders												
R COMMON ARE												
ome (loss) from tinuing rations butable to Key mmon reholders	**$**	**.21**	**$**	**.21**	$	.21	$	.23	$	.23	**$**	**.42**	$ .44
ome (loss) from ontinued rations, net of s[a]		**.01**				.01				.01		**.01**	.01
income (loss) butable to Key mmon reholders[d]		**.22**		**.22**		.21		.23		.24		**.43**	.45
ome (loss) from tinuing rations butable to Key mmon reholders uming dilution	**$**	**.21**	**$**	**.21**	$	.20	$	.22	$	.23	**$**	**.42**	$ .43
ome (loss) from ontinued rations, net of s assuming tion[a]		**.01**				.01				.01		**.01**	.01
income (loss) butable to Key mmon reholders uming dilution [d]		**.22**		**.21**		.21		.23		.24		**.43**	.45
h dividends paid		**.055**		**.05**		.05		.05		.05		**.105**	.08
k value at period		**10.89**		**10.89**		10.78		10.64		10.43		**10.89**	10.43
gible book value eriod end		**9.77**		**9.78**		9.67		9.54		9.45		**9.77**	9.45
ket price:													
h		**11.09**		**10.19**		9.01		9.12		8.54		**11.09**	8.82
/		**9.29**		**8.29**		7.96		7.46		6.80		**8.29**	6.80
se		**11.04**		**9.96**		8.42		8.74		7.74		**11.04**	7.74
ghted-average mmon shares tanding (000)		**913,736**		**920,316**		925,725		936,223		944,648		**917,008**	946,995
ghted-average mmon shares and		**918,628**		**926,051**		930,382		940,764		948,087		**922,319**	951,029

ential common res outstanding 0))							
PERIOD END							
ns	**$ 53,101**	**$ 52,574**	$ 52,822	$ 51,419	$ 49,605	**$ 53,101**	$ 49,605
ning assets	**76,717**	**75,066**	75,055	72,139	71,899	**76,717**	71,899
al assets	**90,639**	**89,198**	89,236	86,950	86,523	**90,639**	86,523
osits	**67,721**	**64,654**	65,993	64,188	62,167	**67,721**	62,167
g-term debt	**6,666**	**7,785**	6,847	6,119	7,521	**6,666**	7,521
common reholders equity	**9,938**	**10,049**	9,980	9,960	9,864	**9,938**	9,864
shareholders ty	**10,229**	**10,340**	10,271	10,251	10,155	**10,229**	10,155
RFORMANCE TIOS FROM NTINUING ERATIONS							
urn on average l assets	**.95 %**	**.99 %**	.96 %	1.06 %	1.10 %	**.97 %**	1.05
urn on average mon equity	**7.72**	**7.96**	7.58	8.45	8.90	**7.84**	8.49
urn on average gible common ty[b]	**8.60**	**8.87**	8.45	9.43	9.83	**8.73**	9.39
interest margin)	**3.13**	**3.24**	3.37	3.23	3.06	**3.18**	3.11
h efficiency [b]	**69.06**	**65.98**	69.02	64.14	69.13	**67.52**	68.43
RFORMANCE TIOS FROM NSOLIDATED ERATIONS							
urn on average l assets	**.92 %**	**.94 %**	.93 %	1.01 %	1.10 %	**.93 %**	1.01
urn on average mon equity	**7.92**	**8.08**	7.86	8.57	9.47	**8.00**	8.76
urn on average gible common ty[b]	**8.82**	**9.01**	8.77	9.56	10.46	**8.91**	9.69
interest margin)	**3.07**	**3.16**	3.29	3.14	2.99	**3.12**	3.03
n to deposit[c]	**83.63**	**86.95**	85.77	86.24	86.38	**83.63**	86.38
PITAL TIOS AT RIOD END							
shareholders ty to assets	**11.29 %**	**11.59 %**	11.51 %	11.79 %	11.74 %	**11.29 %**	11.74

common reholders equity ssets	**10.96**	**11.27**	11.18	11.45	11.40	**10.96**	11.40
gible common ty to tangible ts(b)	**9.96**	**10.24**	10.15	10.39	10.44	**9.96**	10.44
1 common ty(b)	**11.18**	**11.40**	11.36	11.30	11.63	**11.18**	11.63
1 risk-based tal	**11.93**	**12.19**	12.15	12.10	12.45	**11.93**	12.45
al risk-based tal	**14.65**	**15.02**	15.13	15.17	15.83	**14.65**	15.83
erage	**11.25**	**11.36**	11.41	11.37	11.35	**11.25**	11.35
UST AND OKERAGE SETS							
ets under agement	**$ 35,544**	**$ 35,714**	$ 34,744	$ 35,587	$ 35,148	**$ 35,544**	$ 35,148
managed and kerage assets	**37,759**	**37,115**	35,550	34,322	33,803	**37,759**	33,803
HER DATA							
rage -time-equivalent ployees	**14,999**	**15,396**	15,589	15,833	15,455	**15,197**	15,430
nches	**1,052**	**1,084**	1,088	1,087	1,062	**1,052**	1,062

(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) See Figure 8 entitled GAAP to Non-GAAP Reconciliations, which presents the computations of certain financial measures related to tangible common equity, and cash efficiency, and adjusted cash efficiency. The table reconciles the GAAP performance measures to the corresponding non-GAAP measures, which provides a basis for period-to-period comparisons.

(c) Represents period-end consolidated total loans and loans held for sale (excluding education loans in the securitizations trusts) divided by period-end consolidated total deposits (excluding deposits in foreign office).

(d) EPS may not foot due to rounding.

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Forward-looking statements

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

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

continued strain on the global financial markets as a result of economic slowdowns and concerns;

the slow progress of the U.S. economic recovery;

changes in trade, monetary and fiscal policies of various governmental bodies and central banks in the economies in which we operate;

our ability to anticipate interest rate changes correctly and manage interest rate risk presented through unanticipated changes in our interest rate risk position and/or short- and long-term interest rates;

changes in local, regional and international business, economic or political conditions in the regions where we operate or have significant assets;

current regulatory initiatives in the U.S., including the Dodd-Frank Act, subjecting us to a variety of new and more stringent legal and regulatory requirements and increased scrutiny from our regulators;

the deterioration of unemployment or real estate asset values or their failure to recover for an extended period of time;

adverse changes in credit quality trends;

our ability to determine accurate values of certain assets and liabilities;

adverse behaviors in securities, public debt, and capital markets, including changes in market liquidity and volatility;

unanticipated changes in our liquidity position, including but not limited to our ability to enter the financial markets to manage and respond to any changes to our liquidity position;

the soundness of other financial institutions;

our ability to satisfy new capital and liquidity standards such as those imposed by the Dodd-Frank Act and those adopted by the Basel Committee;

our ability to receive dividends from our subsidiary, KeyBank;

reductions of the credit ratings assigned to KeyCorp and KeyBank;

unexpected or prolonged changes in the level or cost of liquidity;

- our ability to secure alternative funding sources under stressed liquidity conditions;
- our ability to timely and effectively implement our strategic initiatives;
- operational or risk management failures;
- breaches of security or failures of our technology systems due to technological, cybersecurity threats or other factors;
- the occurrence of natural or man-made disasters or conflicts or terrorist attacks disrupting the economy or our ability to operate;
- the adequacy of our risk management programs;
- adverse judicial proceedings;
- increased competitive pressure due to consolidation;
- our ability to attract and/or retain talented executives and employees;
- our ability to effectively sell additional products or services to new or existing customers;
- our ability to manage our reputational risks;
- unanticipated adverse effects of acquisitions and dispositions of assets, business units or affiliates; and
- other risks and uncertainties discussed in Part 1, Item 1. Business under the heading Supervision and Regulation and Item 1A. Risk Factors, each in our 2012 Form 10-K.

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

Economic overview

The economy grew at a significantly slower pace in the second quarter of 2013, as consumer spending weakened and multiple factors subtracted from GDP. Manufacturing took a step back, with business conditions softening and production slowing sharply. Most metrics recovered somewhat in June which may indicate that the decline will be temporary. The trade deficit widened in the second quarter, as exports weakened and imports gained strength, resulting in a net drag on growth. While sequestration has had less of an impact than expected, federal outlays posted another sharp decline and government spending subtracted from GDP for the third consecutive quarter.

As noted, the slower pace of growth in consumption was an important factor weighing on GDP. Weakness was due in part to a significant decline in spending on utilities, primarily resulting from the surge in cold weather-related spending that occurred in the first quarter of 2013. Consistent with much of the recovery to date, spending on durable goods led gains, with strength concentrated in autos. Vehicle sales averaged 15.3 million units in the second quarter, in-line with the first quarter of 2013, but surged to 15.9 million units in June. Retail sales excluding autos were fairly weak, averaging growth of just 0.1% per month, down from 0.3% in the first quarter. Consumer confidence improved further in the second quarter of 2013, benefiting from strong gains in equity prices and continued progress in housing. The Conference Board measure of confidence ended the quarter at 81.4%, up nearly 20 points from the March reading of 61.9%. Energy prices were somewhat volatile through the second quarter of 2013, but inflation trended lower, providing another boost to confidence and consumption. Core personal consumption expenditures were up just 1.1% year-over-year as of May 2013.

In spite of this sluggish economic backdrop, the labor market continued its recovery, with 589,000 jobs added in the second quarter of 2013 (broadly in-line with performance over the past several quarters). Gains, however, remain concentrated in lower wage and part-time employment, which is keeping downward pressure on wage growth. Unemployment was unchanged at 7.6%, as an expanding labor force offset growth in household employment. Participation remains disconcertingly low, but did move a bit higher in June 2013 to 63.5%.

The housing market made further progress in the second quarter of 2013, despite a modest retreat in housing starts. As of May 2013, sales were up over 15% year-over-year for existing homes and 38% for new homes. Driven by continued improvement in demand and tight inventories, price appreciation accelerated, with the CoreLogic Home Price Index up 12.2% year-over-year in May Investors have played an important role, helping to clear inventory and attract primary buyers in the most distressed markets. In June 2013, housing starts totaled 836,000, well below the March 2013 total of one million, but still up 10% year-over-year. The volatile multifamily segment is largely to blame for the decline in housing starts quarter-over-quarter.

Speculation around the potential Federal Reserve tapering of asset purchases drove interest rates sharply higher in May and June. The yield on the 10-year U.S. Treasury started the quarter at just 1.87%, and ended the quarter 65 basis points higher, at 2.52%. The content and tone of Federal Reserve communications were a significant factor, with rates rising far more than the economic data would suggest.

Long-term financial goals

Our long-term financial goals are as follows:

¿ Target a loan-to-core deposit ratio range of 90% to 100%;

¿ Maintain a moderate risk profile by targeting a net charge-off ratio range of .40% to .60%;

¿ Grow high quality and diverse revenue streams by targeting a net interest margin in excess of 3.50%, and ratio of noninterest income to total revenue of greater than 40%;

¿ Create positive operating leverage and target a cash efficiency ratio in the range of 60% to 65%; and

¿ Achieve a return on average assets in the range of 1.00% to 1.25%.

Figure 3 shows the evaluation of our long-term financial goals for the second quarter of 2013.

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Figure 3. Evaluation of Our Long-Term Financial Goals

KEY Business Model	Key Metrics[a]	2Q13	2013	Targets	Action Plans
Core funded	Loan to deposit ratio [b]	84 %	84 %	90-100%	¡Use integrated model to grow relationships and loans ¡Improve deposit mix
Maintain a moderate risk profile	NCOs to average loans	.34 %	.36 %	.40-.60%	¡Focus on relationship clients ¡Exit noncore portfolios ¡Limit concentrations ¡Focus on risk-adjusted returns
	Provision to average loans	.21 %	.32 %		
Growing high quality, diverse revenue streams	Net interest margin	3.13 %	3.18 %	> 3.50%	¡Improve funding mix ¡Focus on risk-adjusted returns ¡Grow client relationships ¡Capitalize on Key s total client solutions and cross-selling capabilities
	Noninterest income to total revenue	42 %	42 %	> 40%	
Creating positive operating leverage	Cash efficiency ratio [c]	69 %	68 %	60 - 65%	¡Improve efficiency and effectiveness ¡Better utilize technology
	Adj. cash efficiency ratio (ex. Efficiency initiative charges) [c]	65 %	65 %		

					¡Change cost base to more variable from fixed
Executing our strategies	Return on average assets	.95 %	.97 %	1.00-1.25%	¡Execute our client insight-driven relationship model ¡Focus on operating leverage ¡Improved funding mix with lower cost core deposits

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

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

(c) Excludes intangible asset amortization; Non-GAAP measure: see Figure 8 for reconciliation

Strategic developments

We initiated the following actions during the first six months of 2013 to support our corporate strategy described in the Introduction section under the Corporate Strategy heading on page 41 of our 2012 Form 10-K.

¿ 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.

¿ We acquired substantially all third-party commercial loan servicing rights, including CMBS Master, Primary and Special Servicing (as well as Life and other servicing) from Bank of America s Global Mortgages & Securitized Products business, and entered into a subservicing agreement with Berkadia Commercial Mortgage LLC related to all CMBS Primary Servicing. This acquisition allows us to leverage our existing platform and dramatically changes the competitive profile of our commercial loan servicing business, positioning us as the third largest servicer of commercial and multi-family loans and the fifth largest special servicer of CMBS in the U.S. The initial closing of this transaction occurred in June 2013 with the final closing expected in the third quarter of 2013.

¿ We expanded our mobile offering with the launch of new remote deposit capabilities that add accessibility and functionality for both our consumer and commercial clients.

¿ We continue to make progress on our efficiency initiative. We have realized $171 million in annualized expense savings through the second quarter of 2013, and remain on target to reach our goal of $200 million in annualized savings by the end of 2013. During the second quarter of 2013 we consolidated 33 branches and realigned our Community Bank organization to strengthen our relationship-based business model, while responding to economic factors and evolving client expectations.

¿ As previously reported, on January 7, 2013, we submitted to the Federal Reserve and provided to the OCC under the annual CCAR process our 2013 capital plan. On March 14, the Federal Reserve announced that it did not object to our 2013 capital plan. Accordingly, at its March 2013 meeting, our Board authorized the repurchase of up to $426 million of our Common Shares in the open market or through privately negotiated transactions. During the second quarter we

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completed $112 million of Common Share repurchases on the open market under our 2013 capital plan. Common Share repurchases under the new 2013 capital plan authorization are expected to be executed through the first quarter of 2014.

¿ 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.

Demographics

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

Key Community Bank serves individuals and small to mid-sized businesses by offering a variety of deposit, investment, lending, and personalized wealth management products and business advisory services. These products and services are provided through our relationship managers and specialists working in our 13-state branch network, which is organized into three internally defined geographic regions: Rocky Mountains and Northwest, Great Lakes, and Northeast.

Figure 4 shows the geographic diversity of Key Community Bank s average deposits, commercial loans, and home equity loans.

Figure 4. Key Community Bank Geographic Diversity

Three months ended June 30, 2013	**Geographic Region**				
dollars in millions	**Rocky Mountains and Northwest**	**Great Lakes**	**Northeast**	**Nonregion** [a]	**Total**
Average deposits	$ 15,830	$ 15,587	$ 16,163	$ 1,893	$ 49,473
Percent of total	32.0 %	31.5 %	32.7 %	3.8 %	100.0 %
Average commercial loans	$ 5,667	$ 4,143	$ 3,057	$ 2,154	$ 15,021
Percent of total	37.7 %	27.6 %	20.4 %	14.3 %	100.0 %
Average home equity loans	$ 4,716	$ 2,525	$ 2,630	$ 121	$ 9,992

Percent of total	47.2 %	25.3 %	26.3 %	1.2 %	100.0 %

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

Key Corporate Bank is a full-service corporate and investment bank focused principally on serving the needs of middle market clients in 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.

Further information regarding the products and services offered by our Key Community Bank and Key Corporate Bank segments is included in this report in Note 18 (Line of Business Results).

Supervision and regulation

Regulatory reform developments

On July 21, 2010, the Dodd-Frank Act became law. It was intended to address perceived deficiencies and gaps in the regulatory framework for financial services in the U.S., reduce the risks of bank failures, better equip the nation s regulators to guard against or mitigate any future financial crises, and manage systemic risk through increased supervision of bank and nonbank SIFIs, such as KeyCorp and KeyBank. Further discussion concerning the Dodd-Frank Act, related regulatory developments, and the risks that they present to Key is available in under the heading Supervision and Regulation in Item 1. Business and under the heading II. Compliance Risks in Item 1A. Risk Factors of our 2012 Form 10-K. Many of the proposed rules referenced in our prior reports continue to remain pending. The following provides a summary of relevant regulatory developments relating to the Dodd-Frank Act or that relate to our results this quarter.

Supervisory and company-run stress testing

On March 7, 2013, the Federal Reserve published the results of its Dodd-Frank Annual Stress Test (DFAST), and on March 14, 2013, the Federal Reserve published the results of its CCAR. Each of these stress tests is required under the Dodd-Frank Act for certain banking organizations, including KeyCorp. On March 8, 2013, KeyCorp and KeyBank published the results of their annual company-run stress tests, which are also required by the Dodd-Frank Act. KeyCorp passed DFAST and, as previously reported, its 2013 capital plan under CCAR was not objected to by the Federal Reserve.

Enhanced prudential standards and early remediation requirements

On January 5, 2012, the Federal Reserve published proposed Regulation YY Enhanced Prudential Standards as part of its efforts to implement enhanced prudential standards and early remediation requirements to be imposed upon SIFIs pursuant to the Dodd-Frank Act. It generally applies to SIFIs like KeyCorp and includes a wide range of measures addressing issues such as risk-based capital requirements and leverage limits, liquidity requirements, single-counterparty credit limits, risk management, supervisory and company-run stress testing requirements, and early remediation. On February 22, 2013, the Federal Reserve extended the period for comment on the proposed rule to April 30, 2013. We continue to monitor the implementation of this rule.

Debit card and interchange fees and routing

On July 31, 2013, the U.S. District Court for the District of Columbia issued a ruling in *NACS v. Board of Governors of the Federal Reserve System*, vacating the Federal Reserve s Final Rule on Debit Card and Interchange Fees and Routing. Retail merchants and merchant groups challenged the Federal Reserve s final rule, which had allowed debit card issuers to recover from merchants an interchange fee of $.21 per transaction, a fee of five basis points of the value of the transaction and an additional $.01 fraud prevention adjustment. The district court held that this fee structure, and the final rule s requirements regarding the number of networks over which each debit card transaction can be processed, did not comply with the Durbin Amendment to the Dodd-Frank Act. The district court stayed its ruling until the Federal Reserve issues a new rule, and in the meantime will consider whether the Federal Reserve should provide an interim rule. We continue to monitor these developments.

New regulatory capital rules

In July 2013, the Federal banking regulators approved the final Basel III capital framework for U.S. banking organizations (the Regulatory Capital Rules). Besides Basel III implementation in the U.S., the Regulatory Capital Rules also address two capital-related provisions of the Dodd-Frank Act: first, the provision requiring that the general risk-based and leverage capital requirements applicable to FDIC-insured deposit institutions that are not advanced approaches depository institutions (such as KeyBank) act as a floor for the requirements applicable to all BHCs (such as KeyCorp) as well as to all advanced approaches banking organizations; and, second, the provision requiring that references to external credit ratings be removed from the regulators rules and replaced with alternative standards of creditworthiness.

The Regulatory Capital Rules are lengthy and complex, and we are evaluating their impact on Key. In general, however, the Regulatory Capital Rules largely adhere to the NPRs as initially proposed in 2012 and replace the regulators Basel I-based general rules with a standardized approach based in substantial part upon the standardized approach in Basel II that was never adopted for U.S. banking organizations. The Regulatory Capital Rules also consolidate into a single regulation, with a single set of definitions used with common meanings, the regulators existing general risk-based capital rules, advanced approaches risk-based capital rules, leverage capital rules, and market risk rules.

Based on our preliminary analysis, there are at least three noteworthy changes from the NPRs that are in the Regulatory Capital Rules. The first change relates to the treatment of AOCI. This change permits banking organizations not subject to the advanced approaches provisions, such as Key, to make a one-time permanent election to opt-out of the requirement to include all components of AOCI (excluding accumulated net gains and losses on cash flow hedges related to items that are not fair-valued on the balance sheet) in common equity Tier 1 capital. The second change relates to the risk weightings for residential mortgage loans. Unlike the treatment of such loans under the NPRs that would have applied risk weightings to residential mortgages ranging from 35% to 200% based on the loan s loan-to-value and product features associated with higher risk, the Regulatory Capital Rules retain the current treatment for such exposures (i.e., 50% risk weight for most first-lien exposures that are prudently underwritten and performing according to their original terms and 100% risk weight for other residential mortgage exposures). The third change relates to the treatment of mortgage servicing assets (MSAs). Under the NPRs, the amount of a banking organization s MSAs that could be included in regulatory capital could not exceed

90% of the fair value of its MSAs. If the amount of MSAs included in regulatory capital (after applying the individual 10% and 15% aggregate common equity Tier 1 deduction thresholds) was greater than 90% of the fair value of a banking organization s MSAs, then the banking organization would have been required to deduct an additional amount of MSAs from regulatory capital until no more than 90% of the fair value of its MSAs was included. This 90% MSA fair value limitation was eliminated in the Regulatory Capital Rules. However, all amounts of MSAs not deducted under the 10% and 15% common equity Tier 1 deduction thresholds and included in regulatory capital must be assigned a 250% risk weight.

While the Regulatory Capital Rules are effective January 1, 2014, the mandatory compliance date for Key as a standardized approach banking organization begins on January 1, 2015 and is subject to transitional provisions extending to January 1, 2019.

New Minimum Capital Requirements

Under the Regulatory Capital Rules, banking organizations subject to the standardized approach provisions, like Key, will be required to meet the minimum capital and leverage ratios set forth in Figure 5, below. At June 30, 2013, Key had a Tier 1 common equity ratio of 11.18% under current Basel I. Also at June 30, 2013, based on the fully phased-in Regulatory Capital Rules, Key estimates that its capital and leverage ratios, after adjustment for market risk, would be as set forth in Figure 5.

Figure 5. Estimated Ratios vs. Minimum Capital Ratios Calculated Under the Fully Phased-In Regulatory Capital Rules

Ratios (including Capital conservation buffer)	**Key 6-30-2013 Estimated**	**Proposed Minimum 1-1-2015**	**Phase-in Period**	**Proposed Minimum 1-1-2019**
Common Equity Tier 1	10.8 %	4.5 %	None	4.5 %
Capital conservation buffer [a]			1/1/16 - 1/1/19	2.5
Common Equity Tier 1 + Capital conservation buffer		4.5	1/1/16 - 1/1/19	7.0
Tier 1 Capital	11.1	6.0	None	6.0
Tier 1 Capital + Capital conservation buffer		4.5	1/1/16 - 1/1/19	8.5
Total Capital	12.2	8.0	None	8.0
Total Capital + Capital conservation buffer		8.0	1/1/16 - 1/1/19	10.5
Leverage [b]	10.3	4.0	None	4.0

(a) Capital conservation buffer must consist of Common Equity Tier 1 capital. Key is not subject to the proposed countercyclical capital buffer of up to 2.5% imposed under the advanced approaches portion of the Regulatory Capital Rules.

(b) Key is not subject to the proposed 3% supplemental leverage ratio requirement imposed under the advanced approaches portion of the Regulatory Capital Rules.

Revised Prompt Corrective Action Standards

Under the Regulatory Capital Final Rules, the prompt corrective action capital category threshold ratios applicable to FDIC-insured depository institutions, such as KeyBank will be revised effective January 1, 2015. Figure 6 identifies the proposed capital category threshold ratios for a well capitalized and an adequately capitalized institution under current law and the Regulatory Capital Rules.

Figure 6. Revised Prompt Corrective Action Well Capitalized and Adequately Capitalized Capital Category Ratios

under the Regulatory Capital Rules

Prompt Corrective Action	Capital Category			
	Well Capitalized		Adequately Capitalized	
Ratio	Final Rule	Current	Final Rule	Current
Common Equity Tier 1 Risk-Based	6.5 %	N/A	4.5 %	N/A
Tier 1 Risk-Based	8.0	6.0 %	6.0	4.0 %
Total Risk-Based	10.0	10.0	8.0	8.0
Tier 1 Leverage	5.0	5.0	4.0	3.0 or 4.0

We believe that, as of June 30, 2013, KeyCorp and KeyBank would meet all capital adequacy requirements under the Regulatory Capital Rules on a fully phased-in basis if such requirements were currently effective. As previously indicated, the prompt corrective action requirements only apply to FDIC-insured depository institutions and not to BHCs. Nevertheless, if such prompt corrective action capital categories applied to BHCs, we believe that KeyCorp would meet all prompt corrective action capital and leverage ratio requirements for a well-capitalized capital category at June 30, 2013, under the Regulatory Capital Rules on a fully phased-in basis if such requirements were currently effective.

New Assessments, Fees and Other Charges

As previously reported, Section 318 of the Dodd-Frank Act requires the Federal Reserve to charge SIFIs and institutions regulated by it new assessments, fees and other charges in connection with their examination, supervision, and regulation of such companies. On April 18, 2013, the Federal Reserve published a proposed rule to establish an annual assessment of SIFIs. The proposed rule outlines how the Federal Reserve would determine which companies are assessed, estimate the total expenses that are necessary or appropriate to carry out its supervisory and regulatory responsibilities for such companies, determine the amount of each company's assessment, and bill for and collect the assessments. Under the proposal, each calendar year would be an assessment period. The Federal Reserve would notify each company of the amount of its assessment no later than July 15 of the year following the assessment period. Payments would be due by September 30. Under the proposal, 2012 would be the first assessment period and payments would not be collected until the rule is finalized. Using the methodologies in the proposal, the Federal Reserve estimates that for 2012 there would be approximately 70 companies assessed and the Federal Reserve would collect a total of approximately $440 million. Key estimates that its initial assessment under the proposed rule would be approximately $1.7 $2.0 million. The comment period on the proposed rule expired on June 16, 2013.

Highlights of Our Performance

Financial performance

For the second quarter of 2013, we announced net income from continuing operations attributable to Key common shareholders of $193 million, or $.21 per Common Share. Our second quarter of 2013 results compare to net income from continuing operations attributable to Key common shareholders of $217 million, or $.23 per Common Share, for the second quarter of 2012.

Our taxable-equivalent net interest income was $586 million for the second quarter of 2013, and the net interest margin was 3.13%. These results compare to taxable-equivalent net interest income of $544 million and a net interest margin of 3.06% for the second quarter of 2012. Net interest income increased $42 million or 7.7% when compared to second quarter of 2012. Recognizing that asset yields remain under pressure and given our higher levels of liquidity, we expect the net interest margin to experience modest pressure in the range of one to three basis points per quarter in the second half of the year.

Our noninterest income was $429 million for the second quarter of 2013, compared to $457 million for the year-ago quarter. Operating lease income and other leasing gains decreased $39 million primarily due to a $31 million gain on the early terminations of leveraged leases one year ago, and net gains (losses) from principal investing decreased by $17 million. These decreases were partially offset by increases in investment banking and debt placement fees and cards and payments income of $11 million each, and an increase in trust and investment services income of $10 million.

Our noninterest expense was $711 million for the second quarter of 2013, compared to $693 million for the same period last year. Personnel expense increased $29 million due to an increase in severance expense primarily associated with our efficiency initiative and higher incentive compensation expense accruals. Nonpersonnel expense decreased $11 million from one year ago. Business services and professional fees declined $14 million, and marketing expense and OREO expense each decreased $6 million. These declines were partially offset by an increase in net occupancy of $10 million primarily due to charges related to the consolidation of 33 branches during the second quarter of 2013. Intangible asset amortization on credit cards and other intangible asset amortization associated with the third quarter 2012 acquisitions of the credit card portfolio and 37 branches in Western New York also increased $9 million in total.

We continue to make progress on our efficiency initiative. We have realized $171 million in annualized expense savings through the second quarter of 2013, and remain on target to reach our goal of $200 million in annualized savings by the end of 2013. During the second quarter of 2013, we consolidated 33 branches and realigned our Community Bank organization around our core relationship strategy to drive profitability.

Average loans were $52.7 billion for the second quarter of 2013, an increase of $3.3 billion or 6.6% compared to the second quarter of 2012. Commercial, financial and agricultural loans grew by $2.9 billion over the year-ago quarter, with strong growth across Key s business segments. In addition, the third quarter 2012 credit card portfolio and Western New York branch acquisitions added $1 billion of mostly consumer loans. This growth was partially offset by declines in the commercial real estate portfolio, the equipment lease portfolio, which included the early termination of certain leveraged leases in the exit portfolio in 2012, and run-off of consumer loans in the designated exit portfolio. Our outlook for loan growth remains positive and consistent with our prior guidance of mid-single digit growth for the year driven by commercial,

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financial and agricultural loans. We anticipate average earning assets for the balance of 2013 to be relatively flat with the second quarter 2013 level of $75.2 billion.

Average deposits, excluding deposits in foreign office, totaled $64.9 billion for the second quarter of 2013, an increase of $4.6 billion compared to the year-ago quarter. The growth reflects an increase in demand deposits of $2.7 billion and interest-bearing non-time deposits of $4.2 billion (including the impact of Key s third quarter 2012 Western New York branch acquisition, which added $2 billion of mostly interest-bearing nontime deposits). This deposit growth was partially offset by $2.3 billion of run-off from one year ago in certificates of deposit and other time deposits.

Our provision for loan and lease losses was $28 million for the second quarter of 2013, compared to $21 million for the year-ago quarter. Our allowance for loan and lease losses was $876 million, or 1.65% of total period-end loans at June 30, 2013, compared to 1.79% at June 30, 2012.

At June 30, 2013, our nonperforming loans totaled $652 million and represented 1.23% of period-end portfolio loans, compared to 1.32% at June 30, 2012. Nonperforming assets at June 30, 2013, totaled $693 million and represented 1.30% of period-end portfolio loans and OREO and other nonperforming assets, compared to 1.51% at June 30, 2012. OREO balances declined $10 million from one year ago to $18 million at June 30, 2013.

Our capital ratios remain strong. Our tangible common equity, Tier 1 common equity and Tier 1 risk-based capital ratios at June 30, 2013, are 9.96%, 11.18%, and 11.93%, respectively, compared to 10.44%, 11.63%, and 12.45%, respectively, at June 30, 2012. We have continued to return capital to our shareholders by repurchasing Common Shares and through our quarterly Common Share dividend. In the second quarter, we repurchased $112 million of Common Shares under our 2013 capital plan.

Figure 7 shows our continuing and discontinued operating results for the current, past and year-ago quarters. Our financial performance for each of the past five quarters is summarized in Figure 1.

Figure 7. Results of Operations

in millions, except per share amounts	**Three months ended 6-30-13**	**3-31-13**	**6-30-12**	**Six months ended 6-30-13**	**6-30-12**
Summary of operations					
Income (loss) from continuing operations attributable to Key	**$ 199**	$ 201	$ 222	**$ 400**	$ 423
Income (loss) from discontinued operations, net of taxes [(a)]	**5**	3	14	**8**	13
Net income (loss) attributable to Key	**$ 204**	$ 204	$ 236	**$ 408**	$ 436
Income (loss) from continuing operations attributable to Key	**$ 199**	$ 201	$ 222	**$ 400**	$ 423

Less: Dividends on Series A Preferred Stock		**6**		5		5		**11**		11
Income (loss) from continuing operations attributable to Key common shareholders		**193**		196		217		**389**		412
Income (loss) from discontinued operations, net of taxes (a)		**5**		3		14		**8**		13
Net income (loss) attributable to Key common shareholders	**$**	**198**	$	199	$	231	**$**	**397**	$	425
Per common share assuming dilution										
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.21**	$	.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 (c)	**$**	**.22**	$	.21	$	.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 National Association. In February 2013, we announced an agreement to sell Victory to a private equity fund. As a result of these decisions, Key has accounted for these businesses as discontinued operations. The income (loss) from discontinued operations for the periods presented was primarily attributable to fair value adjustments related to the education lending securitization trusts.

(b) EPS may not foot due to rounding.

Figure 8 presents certain non-GAAP financial measures related to tangible common equity, return on tangible common equity and Tier 1 common equity. Tier 1 common equity, a non-GAAP financial measure, is a component of Tier 1 risk-based capital. Tier 1 common equity is not formally defined by GAAP or prescribed in amount by federal banking regulations applicable to us before January 1, 2015. However, since analysts and banking regulators may assess our capital adequacy using tangible common equity and Tier 1 common equity, we believe it is useful to enable investors to assess our capital adequacy on these same bases. Figure 8 also reconciles the GAAP performance measures to the corresponding non-GAAP measures.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and the composition of capital, the calculation of which is prescribed in federal banking regulations. Since early 2009, the Federal Reserve has focused its assessment of capital adequacy on a component of Tier 1 common equity. Because the Federal Reserve has long indicated that voting common shareholders equity (essentially Tier 1 risk-based capital less preferred

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stock, qualifying capital securities and noncontrolling interests in subsidiaries) generally should be the dominant element in Tier 1 risk-based capital, this focus on Tier 1 common equity is consistent with existing capital adequacy categories. The newly adopted Regulatory Capital Rules, described in more detail under the section Supervision and regulation of this report, also make Tier 1 common equity a priority. The Regulatory Capital Rules change the regulatory capital standards that apply to BHCs by phasing out the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. By 2016, our trust preferred securities will only be included in Tier 2 capital.

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

The cash efficiency ratio and adjusted cash efficiency ratio are ratios of two non-GAAP performance measures. As such, there are no directly comparable GAAP performance measures. The cash efficiency ratio performance measure removes the impact of our intangible asset amortization from the calculation. The adjusted cash efficiency ratio further removes the impact of the efficiency initiative charges. We believe these ratios provide greater consistency and comparability between our results and those of our peer banks. Additionally, these ratios are used by analysts and investors as they develop earnings forecasts and peer bank analysis.

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

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Figure 8. GAAP to Non-GAAP Reconciliations

dollars in millions		Three months ended 6-30-13	12-31-12	6-30-12
Tangible common equity to tangible assets at period end				
Key shareholders equity (GAAP)		**$ 10,229**	$ 10,271	$ 10,155
Less:	Intangible assets [a]	**1,021**	1,027	932
	Preferred Stock, Series A [d]	**282**	291	291
	Tangible common equity (non-GAAP)	**$ 8,926**	$ 8,953	$ 8,932
Total assets (GAAP)		**$ 90,639**	$ 89,236	$ 86,523
Less:	Intangible assets [a]	**1,021**	1,027	932
	Tangible assets (non-GAAP)	**$ 89,618**	$ 88,209	$ 85,591
Tangible common equity to tangible assets ratio (non-GAAP)		9.96 %	10.15 %	10.44 %
Tier 1 common equity at period end				
Key shareholders' equity (GAAP)		**$ 10,229**	$ 10,271	$ 10,155
Qualifying capital securities		**339**	339	339
Less:	Goodwill	**979**	979	917
	Accumulated other comprehensive income (loss) [b]	**(359)**	(172)	(109)
	Other assets [c]	**101**	114	71
	Total Tier 1 capital (regulatory)	**9,226**	9,689	9,615
Less:	Qualifying capital securities	**339**	339	339
	Preferred Stock, Series A [d]	**282**	291	291
	Total Tier 1 common equity (non-GAAP)	**$ 9,225**	$ 9,059	$ 8,985
Net risk-weighted assets (regulatory) [c]		**$ 82,528**	$ 79,734	$ 77,236
Tier 1 common equity ratio (non-GAAP)		**11.18 %**	11.36 %	11.63 %
Pre-provision net revenue				
Net interest income (GAAP)		**$ 581**	$ 601	$ 538
Plus:	Taxable-equivalent adjustment	**5**	6	6
	Noninterest income	**429**	439	457
Less:	Noninterest expense	**711**	734	693
		$ 304	$ 312	$ 308

Pre-provision net revenue from continuing operations (non-GAAP)								
Average tangible common equity								
Average Key shareholders equity (GAAP)	**$**	**10,314**		$	10,261		$	10,100
Less: Intangible assets (average) [e]		**1,023**			1,030			931
Preferred Stock, Series A (average)		**291**			291			291
Average tangible common equity (non-GAAP)	**$**	**9,000**		$	8,940		$	8,878
Return on average tangible common equity from continuing operations								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**193**		$	190		$	217
Average tangible common equity (non-GAAP)		**9,000**			8,940			8,878
Return on average tangible common equity from continuing operations (non-GAAP)		**8.60**	**%**		8.45	%		9.83 %
Return on average tangible common equity consolidated								
Net income (loss) attributable to Key common shareholders	**$**	**198**		$	197		$	231
Average tangible common equity (non-GAAP)		**9,000**			8,940			8,878
Return on average tangible common equity consolidated (non-GAAP)		**8.82**	**%**		8.77	%		10.46 %
Cash efficiency ratio								
Noninterest expense (GAAP)	**$**	**711**		$	734		$	693
Less: Intangible asset amortization on credit cards		**7**			8			
Other intangible asset amortization		**3**			4			1
Adjusted noninterest expense (non-GAAP)	**$**	**701**		$	722		$	692
Net interest income (GAAP)	**$**	**581**		$	601		$	538
Plus: Taxable-equivalent adjustment		**5**			6			6
Noninterest income (GAAP)		**429**			439			457
Total taxable-equivalent revenue (non-GAAP)	**$**	**1,015**		$	1,046		$	1,001
Cash efficiency ratio (non-GAAP)		**69.06**	**%**		69.02	%		69.13 %
Adjusted cash efficiency ratio net of efficiency initiative charges								
Adjusted noninterest expense (non-GAAP)	**$**	**701**		$	722		$	692
Less: Efficiency initiative charges (non-GAAP)		**37**			16			
Net adjusted noninterest expense (non-GAAP)	**$**	**664**		$	706		$	692
Total taxable-equivalent revenue (non-GAAP)	**$**	**1,015**		$	1,046		$	1,001

Adjusted cash efficiency ratio net of efficiency initiative charges (non-GAAP)	**65.42 %**	67.50 %	69.13 %

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Figure 8. GAAP to Non-GAAP Reconciliations, continued

dollars in millions		Three months ended 6-30-13	
Tier 1 common equity under the Regulatory Capital Rules (estimates)			
Tier 1 common equity under current regulatory rules	**$**	**9,226**	
Adjustments from current regulatory rules to the Regulatory Capital Rules:			
Deferred tax assets and other [f]		**(62)**	
Tier 1 common equity anticipated under the Regulatory Capital Rules [h]	**$**	**9,164**	
Net risk-weighted assets under current regulatory rules	**$**	**82,528**	
Adjustments from current regulatory rules to the Regulatory Capital Rules:			
Loan commitments less than one year		**826**	
Past due loans		**253**	
Mortgage servicing assets [h]		**487**	
Deferred tax assets [h]		**279**	
Other		**1,029**	
Total risk-weighted assets anticipated under the Regulatory Capital Rules [g]	**$**	**85,402**	
Tier 1 common equity ratio under the Regulatory Capital Rules		**10.73**	**%**

dollars in millions	Six months ended			
		6-30-13		**6-30-12**
Pre-provision net revenue				
Net interest income (GAAP)	**$**	**1,164**	$	1,091
Plus: Taxable-equivalent adjustment		**11**		12
Noninterest income (GAAP)		**854**		899
Less: Noninterest expense (GAAP)		**1,392**		1,372
Pre-provision net revenue from continuing operations (non-GAAP)	**$**	**637**	$	630
Average tangible common equity				
Average Key shareholders' equity	**$**	**10,297**	$	10,046
Less: Intangible assets (average) [i]		**1,025**		932
Preferred Stock, Series A (average)		**291**		291

Average tangible common equity (non-GAAP)	$	**8,981**	$	8,823
Return on average tangible common equity from continuing operations				
Income (loss) from continuing operations attributable to Key common shareholders	$	**389**	$	412
Average tangible common equity (non-GAAP)		**8,981**		8,823
Return on average tangible common equity from continuing operations (non-GAAP)		**8.73 %**		9.39 %
Return on average tangible common equity consolidated				
Net income (loss) attributable to Key common shareholders	$	**397**	$	425
Average tangible common equity (non-GAAP)		**8,981**		8,823
Return on average tangible common equity consolidated (non-GAAP)		**8.91 %**		9.69 %
Cash efficiency ratio				
Noninterest expense (GAAP)	$	**1,392**	$	1,372
Less: Intangible asset amortization on credit cards		**15**		
Other intangible asset amortization		**7**		2
Adjusted noninterest expense (non-GAAP)	$	**1,370**	$	1,370
Net interest income (GAAP)	$	**1,164**	$	1,091
Plus: Taxable-equivalent adjustment		**11**		12
Noninterest income		**854**		899
Total taxable-equivalent revenue (non-GAAP)	$	**2,029**	$	2,002
Cash efficiency ratio (non-GAAP)		**67.52 %**		68.43 %
Adjusted cash efficiency ratio net of efficiency initiative charges				
Adjusted noninterest expense (non-GAAP)	$	**1,370**	$	1,370
Less: Efficiency initiative charges (non-GAAP)		**52**		
Net adjusted noninterest expense (non-GAAP)	$	**1,318**	$	1,370
Total taxable-equivalent revenue (non-GAAP)	$	**2,029**	$	2,002
Adjusted cash efficiency ratio net of efficiency initiative charges (non-GAAP)		**64.96 %**		68.43 %

(a) Three months ended June 30, 2013 and December 31, 2012 exclude $107 million and $123 million, respectively, of period end purchased credit card receivable intangible assets.

(b) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

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(c) Other assets deducted from Tier 1 capital and net risk-weighted assets consist of disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at June 30, 2013, December 31, 2012, and June 30, 2012.

(d) Net of capital surplus for the three months ended June 30, 2013.

(e) Three months ended June 30, 2013, and December 31, 2012 exclude $110 million and $126 million, respectively, of average ending purchased credit card receivable intangible assets.

(f) Includes the deferred tax asset subject to future taxable income for realization, primarily tax credit carryforwards.

(g) The anticipated amount of regulatory capital and risk-weighted assets is based upon the federal banking agencies Regulatory Capital Rules (as fully phased-in on January 1, 2019); Key is subject to the Regulatory Capital Rules under the standardized approach.

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

(i) Six months ended June 30, 2013 excludes $114 million of average ending purchased credit card receivable intangible assets.

Results of Operations

Net interest income

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

¿ the volume, pricing, mix and maturity of earning assets, and interest-bearing liabilities;

¿ the volume and value of net free funds, such as noninterest-bearing deposits and equity capital;

¿ the use of derivative instruments to manage interest rate risk;

¿ interest rate fluctuations and competitive conditions within the marketplace; and

¿ asset quality.

To make it easier to compare results among several periods and the yields on various types of earning assets (some taxable, some not), we present net interest income in this discussion on a taxable-equivalent basis (i.e., as if it were all taxable and at the same rate). For example, $100 of tax-exempt income would be presented as $154, an amount that if taxed at the statutory federal income tax rate of 35% would yield $100.

Figure 9 shows the various components of our balance sheet that affect interest income and expense, and their respective yields or rates over the past five quarters. This figure also presents a reconciliation of taxable-equivalent net interest income to net interest income reported in accordance with GAAP for each of those quarters. The net interest margin is calculated by dividing annualized taxable-equivalent net interest income by average earning assets.

Taxable-equivalent net interest income was $586 million for the second quarter of 2013, and the net interest margin was 3.13%. These results compare to taxable-equivalent net interest income of $544 million and a net interest margin of 3.06% for the second quarter of 2012. The increase in the net interest margin was primarily a result of a change in funding mix from the redemption of certain trust preferred securities, maturity of long-term debt, and maturity of higher-costing certificates of deposit over the past year.

Compared to the first quarter of 2013, taxable-equivalent net interest income decreased by $3 million, and the net interest margin declined by 11 basis points. The decrease in net interest income was primarily due to lower replacement yields on new loans and investments as compared to the yield on maturing loans and investments. This decline was partially offset by an increase in average earning asset balances and a higher day count in the second quarter. The decline in the net interest margin was largely attributable to a six basis point impact from lower loan yields and fees as well as a five basis point impact from higher levels of liquidity and securities. The net interest margin was also negatively impacted by approximately two basis points from the termination and maturity of $4.4 billion of interest rate swaps that were not replaced, as Key continues to increase its asset sensitivity to be better positioned for a rise in short-term interest rates.

Average earning assets for the second quarter of 2013 totaled $75.2 billion, compared to $71.9 billion for the second quarter of 2012. The increase was primarily attributable to commercial, financial and agricultural loans, which grew by $2.9 billion from the year-ago quarter. In addition, the credit card portfolio and Western New York branch acquisitions in the third quarter of 2012 added $1 billion of mostly consumer loans. This growth was partially offset by managed declines in the commercial real estate portfolio, the commercial lease financing portfolio, which included the early termination of certain leveraged leases in the exit portfolio in 2012, and run-off of consumer loans in the designated exit portfolio.

As shown in Figure 9, the yield was impacted by lower spreads on commercial loans, lower security yields, and an increase in lower yielding short-term investments.

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Figure 9. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations

	Second Quarter 2013				First Quarter 2013	
ons	Average Balance	Interest [a]	Yield/ Rate [a]		Average Balance	Interest [a]
	$ 23,480 [d]	$ 212	3.63 %		$ 23,317 [d]	$ 218
	7,494	78	4.14		7,616	79
	1,049	11	4.30		1,034	11
ase	4,747	48	3.96		4,843	47
ial	36,770	349	3.80		36,810	355
	2,176	24	4.53		2,173	25
ty	9,992	98	3.93		9,787	96
	389	7	7.66		413	8
uity	10,381	105	4.07		10,200	104
r ty	1,392	26	7.35		1,343	25
	697	20	11.91		704	22
r:						
	1,206	20	6.24		1,311	20
	74	1	8.58		85	2
r	1,280	21	6.37		1,396	22
r	15,926	196	4.94		15,816	198
	52,696	545	4.15		52,626	553
sale	513	5	3.93		469	4
able	13,296	79	2.47		12,065	81
	4,144	20	1.87		3,816	18

ty						
nt		**749**	**4**	**2.31**		710	6
		2,722	**1**	**.23**		2,999	2
ents		**1,048**	**8**	**2.61**		1,059	9
ssets		**75,168**	**662**	**3.54**		73,744	673
loan s		**(890)**				(896)	
e s		**9,770**				9,867	
ssets		**5,096**				5,216	
	$	**89,144**			$	87,931	
s							
ey	**$**	**32,849**	**14**	**.17**	$	31,946	14
ts		**2,545**		**.04**		2,473	1
00		**2,975**	**13**	**1.79**		2,911	14
osits		**4,202**	**14**	**1.35**		4,451	16
eign		**573**	**1**	**.24**		454	
g		43,144	42	.39		42,235	45
se		**1,845**		**.14**		1,913	1
l n		**367**	**2**	**1.84**		387	1
t (f),		**4,401**	**32**	**3.25**		4,671	37
g		**49,757**	**76**	**.62**		49,206	84
aring		**22,297**				21,400	
se ities		**1,653**				1,799	
		5,089				5,213	
s		**78,796**				77,618	

ers							
		10,314				10,279	
:							
		34				34	
		10,348				10,313	
s							
	$	**89,144**			$	87,931	
read							
				2.92 %			
ome							
			586	**3.13 %**			589
(b)			**5**				6
)							
		$	**581**			$	583

(a) Results are from continuing operations. Interest excludes the interest associated with the liabilities referred to in (g) below, calculated using a matched funds transfer pricing methodology.

(b) Interest income on tax-exempt securities and loans has been adjusted to a taxable-equivalent basis using the statutory federal income tax rate of 35%.

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

(d) Commercial, financial, and agricultural average balance for the three months ended June 30, 2013, March 31, 2013, December 31, 2012, and September 30, 2012 includes $96 million, $91 million, $90 million, and $54 million, respectively, of assets from commercial credit cards.

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Figure 9. Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates From Continuing Operations

rth Quarter 2012		Third Quarter 2012			Second Quarter 2	
Interest (a)	Yield/ Rate (a)	Average Balance	Interest (a)	Yield/ Rate (a)	Average Balance	Interest
$ 213	3.77 %	$ 21,473 (d)	$ 203	3.76 %	$ 20,606	$ 196
82	4.35	7,463	83	4.40	7,613	85
14	4.94	1,116	12	4.55	1,216	14
49	4.01	5,026	39	3.13	5,226	45
358	3.96	35,078	337	3.83	34,661	340
26	4.70	2,092	25	4.80	1,990	24
98	3.99	9,734	99	4.02	9,359	94
9	8.23	468	9	7.73	493	9
107	4.16	10,202	108	4.19	9,852	103
32	9.63	1,297	32	9.65	1,247	29
23	13.15	432	17	15.38		
22	6.16	1,493	22	6.28	1,595	26
1	8.25	101	3	8.02	101	2
23	6.29	1,594	25	6.39	1,696	28
211	5.30	15,617	207	5.26	14,785	184
569	4.37	50,695	544	4.27	49,446	524
5	3.47	532	5	3.28	585	5
84	2.95	12,608	94	3.07	13,865	105
19	1.94	4,251	21	1.94	3,493	17
3	1.91	693	4	2.10	768	5
2	.27	1,868	1	.24	2,608	2
12	4.05	1,134	8	3.01	1,177	10
694	3.85	71,781	677	3.78	71,942	668
		(883)			(928)	
		9,907			9,866	
		5,471			5,673	
		$ 86,276			$ 86,553	

	14	.18	$	30,176	14	.19	$	29,106	13
		.06		2,378	1	.06		2,085	
	16	2.15		3,420	22	2.53		3,858	27
	18	1.52		5,158	23	1.76		5,645	30
	1	.21		666		.21		759	1
	49	.47		41,798	60	.57		41,453	71
	1	.16		1,822	1	.17		1,880	1
	2	1.97		390	1	1.53		468	2
	35	4.84		3,793	37	4.43		5,463	50
	87	.73		47,803	99	.83		49,264	124
				20,878				19,610	
				1,900				1,902	
				5,449				5,658	
				76,030				76,434	
				10,222				10,100	
				24				19	
				10,246				10,119	
			$	86,276			$	86,553	
		3.12 %				2.95 %			
	607	3.37 %			578	3.23 %			544
	6				6				6
$	601			$	572			$	538

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

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

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

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Figure 10 shows how the changes in yields or rates and average balances from the prior year affected net interest income. The section entitled Financial Condition contains additional discussion about changes in earning assets and funding sources.

Figure 10. Components of Net Interest Income Changes from Continuing Operations

	From three months ended June 30, 2012 to three months ended June 30, 2013			From six months ended June 30, 2012 to six months ended June 30, 2013		
in millions	**Average Volume**	**Yield/ Rate**	**Net Change** (a)	**Average Volume**	**Yield/ Rate**	**Net Change** (a)
INTEREST INCOME						
Loans	$ 34	$ (13)	$ 21	$ 68	$ (36)	$ 32
Loans held for sale	(1)	1		(2)	1	(1)
Securities available for sale	(4)	(22)	(26)	(26)	(35)	(61)
Held-to-maturity securities	3		3	11	(2)	9
Trading account assets		(1)	(1)	(1)		(1)
Short-term investments		(1)	(1)	1	(1)	
Other investments	(1)	(1)	(2)	(2)	1	(1)
Total interest income (TE)	31	(37)	(6)	49	(72)	(23)
INTEREST EXPENSE						
NOW and money market deposit accounts	2	(1)	1	3	(3)	
Savings deposits					1	1
Certificates of deposit ($100,000 or more)	(5)	(9)	(14)	(12)	(17)	(29)
Other time deposits	(7)	(9)	(16)	(14)	(19)	(33)
Total interest-bearing deposits	(10)	(19)	(29)	(23)	(38)	(61)
Federal funds purchased and securities sold under repurchase agreements		(1)	(1)		(1)	(1)
Bank notes and other short-term borrowings				(1)		(1)
Long-term debt	(9)	(9)	(18)	(20)	(12)	(32)
Total interest expense	(19)	(29)	(48)	(44)	(51)	(95)
Net interest income (TE)	$ 50	$ (8)	$ 42	$ 93	$ (21)	$ 72

(a)

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

Noninterest income

As shown in Figure 11, noninterest income was $429 million for the second quarter of 2013, compared to $457 million for the year-ago quarter, a decrease of $28 million, or 6.1%. Operating lease income and other leasing gains decreased $39 million primarily due to a $31 million gain on the early terminations of leveraged leases one year ago, and net gains (losses) from principal investing decreased by $17 million. These decreases were partially offset by increases in investment banking and debt placement fees and cards and payments income of $11 million each, and the increase in trust and investment services income of $10 million.

For the six months ended June 30, 2013, noninterest income decreased $45 million, or 5.0% from the same period one year ago. Operating lease income and other leasing gains decreased $68 million primarily due to a $51 million gain on the early terminations of leveraged leases in the prior year. Net gains (losses) from principal investing also declined $44 million. These decreases were partially offset by increases in investment banking and debt placement fees of $29 million, cards and payments income of $19 million, trust and investment services income of $9 million, and other income of $12 million.

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Figure 11. Noninterest Income

Three months ended June 30,		Change		Six months ended June 30,		Cha
2013	**2012**	**Amount**	**Percent**	**2013**	**2012**	**Amount**
100	$ 90	$ 10	11.1 %	**$ 195**	$ 186	$ 9
84	73	11	15.1	**163**	134	29
71	70	1	1.4	**140**	138	2
19	58	(39)	(67.2)	**42**	110	(68)
43	44	(1)	(2.3)	**88**	88	
42	31	11	35.5	**79**	60	19
31	30	1	3.3	**61**	60	1
6	9	(3)	(33.3)	**13**	18	(5)
7	24	(17)	(70.8)	**15**	59	(44)
26	28	(2)	(7.1)	**58**	46	12
429	$ 457	$ (28)	(6.1)%	**$ 854**	$ 899	$ (45)

(a) Included in this line item is Key s Dealer trading and derivatives income (loss). Additional detail is provided in Figure 12.

Figure 12. Dealer Trading and Derivatives Income (Loss)

	Three months ended June 30,		Change		Six months ended June 30,		
	2013	**2012**	**Amount**	**Percent**	**2013**	**2012**	
ome (loss),	**$ (5)**	$ (8)	$ 3	N/M %	**$ (5)**	$ (5)	
ome (loss),	**7**	6	1	16.7	**17**	12	$
s income (loss)	**$ 2**	$ (2)	$ 4	N/M %	**$ 12**	$ 7	$

(a) For the quarter ended June 30, 2013, income of $2 million related to foreign exchange, interest rate, and energy derivative trading was offset by losses related to fixed income, equity securities trading, and credit portfolio management activities. For the quarter ended June 30, 2012, fixed income and equity securities trading activities constitute the majority of this amount. Income related to foreign exchange, interest rate derivative trading, and credit portfolio management was less than $1 million.

(b) The allocation between proprietary and nonproprietary is made based upon whether the trade is conducted for the benefit of Key or Key's clients rather than based upon the proposed rulemaking under the Volcker Rule. The prohibitions and restrictions on proprietary trading activities contemplated by the Volcker Rule and the rules proposed thereunder are not yet final. Therefore, the ultimate impact of the rules proposed under the Volcker Rule is not yet known.

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

Trust and investment services income

Trust and investment services income is our largest source of noninterest income and consists of brokerage commissions, trust and asset management commissions, and insurance income. The assets under management that primarily generate these revenues are shown in Figure 13. For the three and six months ended June 30, 2013, trust and investment services income increased $10 million, or 11.1% and $9 million, or 4.8%, respectively, as compared to the same periods one year ago.

A significant portion of our trust and investment services income depends on the value and mix of assets under management. At June 30, 2013, our bank, trust and registered investment advisory subsidiaries had assets under management of $35.5 billion, compared to $35.1 billion at June 30, 2012. As shown in Figure 13, an increase in the equity portfolio was partially offset by decreases in the securities lending, fixed income, and money market portfolios. Our securities lending business has been declining due to our de-emphasis of this business resulting in lower transaction volumes, client departures, and fewer assets under management.

Figure 13. Assets Under Management

	2013		2012		
in millions	**Second**	**First**	**Fourth**	**Third**	**Second**
Assets under management by investment type:					
Equity	**$ 19,658**	$ 19,659	$ 18,013	$ 18,266	$ 17,886
Securities lending	**3,202**	2,879	3,147	3,900	4,292
Fixed income	**10,066**	10,697	10,872	10,621	10,280
Money market	**2,618**	2,479	2,712	2,800	2,690
Total	**$ 35,544**	$ 35,714	$ 34,744	$ 35,587	$ 35,148
Proprietary mutual funds included in assets under management:					
Equity	**$**	$ 40	$ 38	$ 40	$ 39
Fixed income	**188**	230	244	261	261
Total	**$ 188**	$ 270	$ 282	$ 301	$ 300

Investment banking and debt placement fees

Investment banking and debt placement fees, which consists of syndication fees, debt and equity financing fees, financial advisor fees, gains on sales of commercial mortgages, and agency origination fees, increased $11 million, or 15.1% from the year-ago quarter and $29 million, or 21.6%, from the six-month period ended one year ago primarily

due to increased levels of debt and equity financings and advisor fees.

Operating lease income and other leasing gains

Operating lease income and other leasing gains decreased $39 million, or 67.2%, for the second quarter of 2013 and $68 million, or 61.8% for the six months ended June 30, 2013 as compared to the same periods one year ago. The decreases were primarily due to gains on the early termination of leveraged leases for the same periods one year ago. Product run-off also contributed to the decline in operating lease income and other leasing gains. Accordingly, as shown in Figure 14, operating lease expense also declined.

Cards and payments income

Cards and payments income, which consists of debit card, consumer and commercial credit card, and merchant services income, increased $11 million, or 35.5%, from the year-ago quarter and $19 million, or 31.7% for the six months ended June 30, 2013, primarily due to the third quarter 2012 credit card portfolio acquisition.

Other income

Other income, which consists of gain on sale of certain loans; mortgage servicing revenue, net of amortization; other service charges; and certain dealer trading income, decreased $2 million, or 7.1% from the year-ago quarter. Other income increased $12 million, or 26.1%, for the six months ended June 30, 2013 as compared to the same period one year ago due to favorable results across several income categories.

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Noninterest expense

As shown in Figure 14, noninterest expense was $711 million for the second quarter of 2013, compared to $693 million for the year-ago quarter, representing an increase of $18 million or 2.6%. Personnel expense increased $29 million due to an increase in severance expense primarily associated with our efficiency initiative and higher incentive compensation accruals. Nonpersonnel expense decreased $11 million from one year ago. Business services and professional fees declined $14 million, and marketing expense and OREO expense each decreased $6 million. These declines were partially offset by an increase in net occupancy of $10 million primarily due to charges related to the consolidation of 33 branches during the second quarter of 2013. Intangible asset amortization on credit cards and other intangible asset amortization associated with the third quarter 2012 acquisitions of the credit card portfolio and 37 branches in Western New York also increased $9 million in total.

The amount of noninterest expense for the second quarter of 2013 attributable to our 2012 acquisitions was $26 million spread across several expense categories, including $3 million of personnel expense, $9 million of intangible asset amortization, and $5 million of loan servicing fees. During the second quarter of 2013, costs associated with our efficiency initiative totaling $37 million were also incurred.

For the six months ended June 30, 2013, noninterest expense increased $20 million, or 1.5% compared to the same period one year ago. Personnel expense increased $48 million due to an increase in severance expense primarily associated with our efficiency initiative, as well as increases due to annual merit and incentive compensation. Nonpersonnel expense decreased $28 million from one year ago. Business services and professional fees declined $16 million, marketing expense decreased $13 million, and OREO expense and operating lease expense were each $9 million lower. These declines were partially offset by an increase in intangible asset amortization of $20 million as a result of the 2012 acquisitions of the credit card portfolio and Western New York branches. Net occupancy also increased $10 million primarily due to charges related to the consolidation of 38 branches during the first half of 2013.

The amount of noninterest expense for the six months ended June 30, 2013, attributable to our 2012 acquisitions was $54 million spread across several expense categories, including $7 million of personnel expense, $20 million of intangible asset amortization, and $10 million of loan servicing fees. For the six months ended June 30, 2013, costs associated with our efficiency initiative totaling $52 million were also incurred.

Figure 14. Noninterest Expense

Three months ended June 30,				Six months ended June 30,		C
2013	2012	Change Amount	Change Percent	2013	2012	Amou
406	$ 377	$ 29	7.7 %	$ 797	$ 749	$ 4
72	62	10	16.1	136	126	1
39	43	(4)	(9.3)	78	84	(
37	51	(14)	(27.5)	72	88	(1

27	27			53	53	
11	15	(4)	(26.7)	23	32	(
11	17	(6)	(35.3)	17	30	(1
8	8			16	16	
7		7	N/M	15		1
3	1	2	200.0	7	2	
5	6	(1)	(16.7)	8	6	
1	7	(6)	(85.7)	4	13	(
84	79	5	6.3	166	173	(
711	$ 693	$ 18	2.6 %	$ 1,392	$ 1,372	$ 2
14,999	15,455	(456)	(3.0)%	15,197	15,430	(23

(a) The number of average full-time-equivalent employees has not been adjusted for discontinued operations.
The following discussion explains the composition of certain elements of our noninterest expense and the factors that caused those elements to change.

Personnel

As shown in Figure 15, personnel expense, the largest category of our noninterest expense, increased by $29 million, or 7.7%, when compared to the year-ago quarter. Severance expense increased $15 million, or 500% as a result of staff reductions related to our efficiency initiative. Incentive compensation accruals also increased $11 million, or 16.7%. Higher

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levels of contract labor on technology initiatives resulted in a $6 million, or 46.2% increase. These increases were partially offset by a decrease in stock-based compensation of $4 million, or 30.8%. For the six months ended June 30, 2013, personnel expense increased $48 million, or 6.4% compared to the same period one year ago. Personnel expense increases included incentive compensation accruals of $24 million, or 19%, severance expense of $20 million, or 285.7%, and technology contract labor of $12 million, or 48%. These increases were partially offset by a decrease in stock-based compensation of $7 million, or 26.9% when compared to the same period one year ago.

Figure 15. Personnel Expense

a	Three months ended June 30,		Change		Six months ended June 30,		Change	
	2013	**2012**	**Amount**	**Percent**	**2013**	**2012**	**Amount**	**Pe**
	$ 227	$ 228	$ (1)	(.4)%	**$ 449**	$ 447	$ 2	
gy abor,	**19**	13	6	46.2	**37**	25	12	
ation	**77**	66	11	16.7	**150**	126	24	
e	**56**	54	2	3.7	**115**	118	(3)	
sed ation	**9**	13	(4)	(30.8)	**19**	26	(7)	
e	**18**	3	15	500.0	**27**	7	20	
l	**$ 406**	$ 377	$ 29	7.7 %	**$ 797**	$ 749	$ 48	

Operating lease expense

Operating lease expense decreased $4 million, or 26.7% from the year-ago quarter and $9 million, or 28.1% from the six-month period ended one year ago. These declines were attributable to product run-off. Income related to the rental of leased equipment is presented in Figure 11 as operating lease income and other leasing gains.

Intangible asset amortization

Intangible asset amortization increased $9 million compared to the year-ago quarter and $20 million for the six months ended June 30, 2013, as compared to the same period one year ago as a result of the 2012 acquisitions of the credit card portfolio and 37 branches in Western New York.

Other expense

Other expense is comprised of various miscellaneous expense items. The $5 million, or 6.3% increase in the current quarter compared to the year-ago quarter and the $7 million, or 4% decrease in the first six months of 2013 as compared to the same period one year ago reflects fluctuations in several of those line items.

Income taxes

We recorded tax expense from continuing operations of $72 million for the second quarter of 2013, $70 million for the first quarter of 2013 and $54 million for the second quarter of 2012. For the first six months of 2013, we recorded tax expense from continuing operations of $142 million compared to tax expense of $127 million for the same period last year.

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

Additional information pertaining to how our tax expense (benefit) and the resulting effective tax rates were derived are included in Note 12 (Income Taxes) on page 175 of our 2012 Form 10-K.

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Line of Business Results

This section summarizes the financial performance and related strategic developments of our two major business segments (operating segments), Key Community Bank and Key Corporate Bank. Note 18 (Line of Business Results) describes the products and services offered by each of these business segments, provides more detailed financial information pertaining to the segments and explains Other Segments and Reconciling Items.

Figure 16 summarizes the contribution made by each major business segment to our taxable-equivalent revenue from continuing operations and income (loss) from continuing operations attributable to Key for the three- and six-month periods ended June 30, 2013 and 2012.

Figure 16. Major Business Segments - Taxable-Equivalent (TE) Revenue from Continuing Operations and Income

(Loss) from Continuing Operations Attributable to Key

	Three months ended June 30,		**Change**		**Six months ended June 30,**		**Change**	
dollars in millions	**2013**	**2012**	**Amount**	**Percent**	**2013**	**2012**	**Amount**	**Percent**
REVENUE FROM CONTINUING OPERATIONS (TE)								
Key Community Bank	**$ 555**	$ 537	$ 18	3.4 %	**$ 1,104**	$ 1,069	$ 35	3.3 %
Key Corporate Bank	**376**	371	5	1.3	**756**	750	6	.8
Other Segments	**86**	94	(8)	(8.5)	**169**	188	(19)	(10.1)
Total Segments	**1,017**	1,002	15	1.5	**2,029**	2,007	22	1.1
Reconciling Items	**(2)**	(1)	(1)	N/M		(5)	5	N/M
Total	**$ 1,015**	$ 1,001	$ 14	1.4 %	**$ 2,029**	$ 2,002	$ 27	1.3 %
INCOME (LOSS) FROM CONTINUING OPERATIONS ATTRIBUTABLE TO KEY								
Key Community Bank	**$ 36**	$ 54	$ (18)	(33.3) %	**$ 68**	$ 111	$ (43)	(38.7)%
Key Corporate Bank	**117**	95	22	23.2	**222**	186	36	19.4
Other Segments	**70**	49	21	42.9	**138**	100	38	38.0

Total Segments		**223**		198		25	12.6		**428**		397		31	7.8
Reconciling Items		**(24)**		24		(48)	N/M		**(28)**		26		(54)	N/M
Total	**$**	**199**	$	222	$	(23)	(10.4) %	**$**	**400**	$	423	$	(23)	(5.4) %

Key Community Bank summary of operations

- Realigned Community Bank structure and organization and closed 33 branches, resulting in expenses of $11 million in the second quarter of 2013
- Continued credit card penetration and successful integration of branches in Western New York
- Eight consecutive quarters of average loan growth
- Core deposits up $3.8 billion, or 9.7%, from the prior year

As shown in Figure 17, Key Community Bank recorded net income attributable to Key of $36 million for the second quarter of 2013, compared to $54 million for the year-ago quarter.

Taxable-equivalent net interest income increased by $1 million, or .3%, from the second quarter of 2012. Average loans and leases grew 10.4% while average deposits increased 3.2% from one year ago. The Western New York branch and credit card portfolio acquisitions contributed $30 million to net interest income, $1 billion to average loans and leases, and $2 billion to deposits. The positive contribution to net interest income from the acquisitions was partially offset by a lower earnings credit applied to deposits in the current period compared to the same period one year ago as a result of the continued low-rate environment.

Noninterest income increased by $17 million, or 9.4%, from the year-ago quarter. Cards and payments income increased $11 million as a result of the third quarter 2012 credit card portfolio acquisition. Trust and investment services income increased $7 million, primarily due to an increase in assets under management resulting from strong market performance and increased production.

The provision for loan and lease losses was a charge of $41 million compared to a credit of $4 million for the second quarter of 2012. Net loan charge-offs, including the 2012 credit card portfolio acquisition, decreased $4 million from the same period one year ago.

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Noninterest expense increased by $1 million, or .2% from the year-ago quarter. Expense reductions resulting from Key s efficiency initiative substantially offset the increase in expenses associated with our third quarter 2012 Western New York branch and credit card portfolio acquisitions.

Figure 17. Key Community Bank

	Three months ended June 30,		Change		Six months ended June 30,		Change
llions	**2013**	**2012**	**Amount**	**Percent**	**2013**	**2012**	**Amount**
Y OF ONS							
income	**$ 357**	$ 356	$ 1	.3 %	**$ 719**	$ 713	$ 6
income	**198**	181	17	9.4	**385**	356	29
e (TE)	**555**	537	18	3.4	**1,104**	1,069	35
redit) lease	**41**	(4)	45	N/M	**99**		99
	456	455	1	.2	**897**	892	5
s) ne	**58**	86	(28)	(32.6)	**108**	177	(69)
come t) and nts	**22**	32	(10)	(31.3)	**40**	66	(26)
(loss) o Key	**$ 36**	$ 54	$ (18)	(33.3) %	**$ 68**	$ 111	$ (43)
S							
eases	**$ 29,161**	$ 26,413	$ 2,748	10.4 %	**$ 29,069**	$ 26,193	$ 2,876
	31,570	28,695	2,875	10.0	**31,522**	28,454	3,068
	49,473	47,946	1,527	3.2	**49,411**	47,723	1,688
. t at	**$ 23,213**	$ 21,116	$ 2,097	9.9 %	**$ 23,213**	$ 21,116	$ 2,097

AL KEY COMMUNITY BANK DATA

	Three months ended June 30,		Change		Six months ended June 30,		Change

llions	2013	2012	Amount	Percent	2013	2012	Amount
REST							
ervices	**$ 67**	$ 60	$ 7	11.7 %	**$ 132**	$ 120	$ 12
rges on unts	**60**	59	1	1.7	**118**	115	3
come	**37**	26	11	42.3	**70**	51	19
erest	**34**	36	(2)	(5.6)	**65**	70	(5)
erest	**$ 198**	$ 181	$ 17	9.4 %	**$ 385**	$ 356	$ 29
DING							
oney sit	**$ 26,341**	$ 23,824	$ 2,517	10.6 %	**$ 26,226**	$ 23,445	$ 2,781
osits	**2,536**	2,074	462	22.3	**2,499**	2,031	468
of 00,000	**2,443**	3,269	(826)	(25.3)	**2,471**	3,355	(884)
eposits	**4,195**	5,629	(1,434)	(25.5)	**4,319**	5,826	(1,507)
oreign	**284**	270	14	5.2	**277**	291	(14)
bearing	**13,674**	12,880	794	6.2	**13,619**	12,775	844
ts	**$ 49,473**	$ 47,946	$ 1,527	3.2 %	**$ 49,411**	$ 47,723	$ 1,688
UITY							
ance	**$ 9,992**	$ 9,359					
verage e ratio	**71 %**	71 %					
lien	**57**	54					
ATA							
	1,052	1,062					
eller	**1,359**	1,576					

Key Corporate Bank summary of operations

- Investment banking and debt placement fees were up $13 million, or 18.8% from the prior year
- Average loan balances up 8.6% from the prior year
- Average deposits up 25.7% from the prior year

As shown in Figure 18, Key Corporate Bank recorded net income attributable to Key of $117 million for the second quarter of 2013, compared to $95 million for the same period one year ago.

Taxable-equivalent net interest income decreased by $1 million, or .5% compared to the second quarter of 2012. Average earning assets increased $1.5 billion, or 7.2%, from the year-ago quarter, driving a $2 million increase in earning asset spread. Average deposit balances increased $3.2 billion, or 25.7%, from the year-ago quarter, driven by the continued execution of health care strategies and increase in public sector deposits. However, these increases in balances were offset by declines in the deposit spread as a result of the continued low-rate environment.

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Noninterest income increased by $6 million, or 3.3%, from the second quarter of 2012. Investment banking and debt placement fees increased $13 million, partially offset by a decrease in operating lease income and other leasing gains of $8 million compared to the year-ago quarter.

The provision for loan and lease losses was a credit of $10 million compared to a charge of $4 million for the second quarter of 2012. There were net loan recoveries of $6 million for the second quarter of 2013 compared to net loan charge-offs of $9 million for the same period one year ago.

Noninterest expense decreased by $11 million, or 5.2%, from the second quarter of 2012. This decline was driven by decreases in professional fees, operating lease expense, and the provision (credit) for losses on lending-related commitments compared to the second quarter of 2012.

Figure 18. Key Corporate Bank

	Three months ended June 30,		**Change**		**Six months ended June 30,**		**Change**	
dollars in millions	**2013**	**2012**	**Amount**	**Percent**	**2013**	**2012**	**Amount**	**Percent**
SUMMARY OF OPERATIONS								
Net interest income (TE)	**$ 189**	$ 190	$ (1)	(.5)%	**$ 376**	$ 386	$ (10)	(2.6) %
Noninterest income	**187**	181	6	3.3	**380**	364	16	4.4
Total revenue (TE)	**376**	371	5	1.3	**756**	750	6	.8
Provision (credit) for loan and lease losses	**(10)**	4	(14)	N/M	**(6)**	17	(23)	N/M
Noninterest expense	**202**	213	(11)	(5.2)	**412**	436	(24)	(5.5)
Income (loss) before income taxes (TE)	**184**	154	30	19.5	**350**	297	53	17.8
Allocated income taxes and TE adjustments	**67**	56	11	19.6	**128**	108	20	18.5
Net income (loss)	**117**	98	19	19.4	**222**	189	33	17.5
Less: Net income (loss) attributable to noncontrolling interests		3	(3)	N/M		3	(3)	N/M
Net income (loss) attributable to Key	**$ 117**	$ 95	$ 22	23.2 %	**$ 222**	$ 186	$ 36	19.4 %

AVERAGE BALANCES								
Loans and leases	**$ 20,133**	$ 18,541	$ 1,592	8.6 %	**$ 20,089**	$ 18,568	$ 1,521	8.2 %
Loans held for sale	**466**	514	(48)	(9.3)	**438**	511	(73)	(14.3)
Total assets	**23,965**	22,709	1,256	5.5	**23,915**	22,783	1,132	5.0
Deposits	**15,606**	12,414	3,192	25.7	**14,792**	11,987	2,805	23.4
Assets under management at period end	**$ 12,331**	$ 14,032	$ (1,701)	(12.1)%	**$ 12,331**	$ 14,032	$ (1,701)	(12.1) %

ADDITIONAL KEY CORPORATE BANK DATA

	Three months ended June 30,		**Change**		**Six months ended June 30,**		**Change**	
dollars in millions	**2013**	**2012**	**Amount**	**Percent**	**2013**	**2012**	**Amount**	**Percent**
NONINTEREST INCOME								
Trust and investment services income	**$ 33**	$ 31	$ 2	6.5 %	**$ 64**	$ 67	$ (3)	(4.5)%
Investment banking and debt placement fees	**82**	69	13	18.8	**161**	129	32	24.8
Operating lease income and other leasing gains	**13**	21	(8)	(38.1)	**31**	45	(14)	(31.1)
Corporate services income	**32**	34	(2)	(5.9)	**63**	67	(4)	(6.0)
Service charges on deposit accounts	**11**	11			**22**	23	(1)	(4.3)
Cards and payments income	**5**	5			**9**	11	(2)	(18.2)
Payments and services income	**48**	50	(2)	(4.0)	**94**	101	(7)	(28.5)
Other noninterest income	**11**	10	1	10.0	**30**	22	8	36.4
Total noninterest income	**$ 187**	$ 181	$ 6	3.3 %	**$ 380**	$ 364	$ 16	4.4 %

Other Segments

Other Segments consist of Corporate Treasury, Community Development, Key s Principal Investing unit, and various exit portfolios. Other Segments generated net income attributable to Key of $70 million for the second quarter of 2013, compared to net income attributable to Key of $49 million for the same period last year. These results were primarily attributable to an increase in net interest income of $44 million and a decrease in the provision for loan and

lease losses of $25 million. These improvements were partially offset by a decline in noninterest income of $52 million primarily due to decreases in operating lease income and other leasing gains of $32 million and net gains (losses) from principal investing of $17 million.

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Financial Condition

Loans and loans held for sale

At June 30, 2013, total loans outstanding from continuing operations were $53.1 billion, compared to $52.8 billion at December 31, 2012 and $49.6 billion at June 30, 2012. Loans related to the discontinued operations of the education lending business, which are excluded from total loans at June 30, 2013, December 31, 2012, and June 30, 2012, totaled $5.0 billion, $5.2 billion, and $5.5 billion, respectively. The increase in our outstanding loans from continuing operations over the past twelve months results primarily from increased lending activity in our commercial, financial and agricultural portfolio along with the previously discussed credit card portfolio and branch acquisition. For more information on balance sheet carrying value, see Note 1 (Summary of Significant Accounting Policies) under the headings Loans and Loans Held for Sale on pages 119-120 of our 2012 Form 10-K.

Commercial loan portfolio

Commercial loans outstanding were $37 billion at June 30, 2013, an increase of $2.4 billion, or 7%, compared to June 30, 2012.

Commercial, financial and agricultural. Our commercial, financial and agricultural loans, also referred to as Commercial and Industrial, represented 45% of our total loan portfolio at June 30, 2013, 44% at December 31, 2012, and 42% at June 30, 2012, and are the largest component of our total loans. These loans are originated by both Key Corporate Bank and Key Community Bank and are comprised of fixed and variable rate loans to our large, middle market and small business clients.

Figure 19 provides our commercial, financial and agricultural loans by industry classification for the periods ended June 30, 2013, December 31, 2012, and June 30, 2012.

Figure 19. Commercial, Financial and Agricultural Loans

	June 30, 2013		**December 31, 2012**		**June 30, 2012**	
dollars in millions	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**
Industry classification:						
Services	**$ 5,502**	**23.2 %**	$ 5,610	24.1 %	$ 4,762	22.8 %
Manufacturing	**4,099**	**17.3**	4,196	18.1	3,749	17.9
Public utilities	**1,735**	**7.3**	1,424	6.1	1,135	5.4
Financial services	**2,063**	**8.7**	2,236	9.6	2,276	10.9
Wholesale trade	**1,929**	**8.1**	1,604	6.9	1,648	7.9
Retail trade	**993**	**4.2**	889	3.8	755	3.6
Mining	**671**	**2.8**	761	3.3	670	3.2
Dealer floor plan	**1,126**	**4.8**	1,216	5.2	1,002	4.8
Property management	**810**	**3.4**	798	3.4	624	3.0
Transportation	**853**	**3.6**	851	3.7	786	3.7
Building contractors	**489**	**2.1**	459	2.0	425	2.0

Agriculture/forestry/fishing		**525**	**2.2**		584	2.5		543	2.6
Insurance		**170**	**.7**		112	.5		96	.5
Public administration		**354**	**1.5**		446	1.9		289	1.4
Communications		**204**	**.9**		183	.8		191	.9
Individuals		**3**			1			2	
Other		**2,189**	**9.2**		1,872	8.1		1,963	9.4
Total	**$**	**23,715**	**100.0 %**	$	23,242	100.0 %	$	20,916	100.0 %

Commercial, financial and agricultural loans increased $2.8 billion, or 13.4%, from the same period last year with Key Corporate Bank increasing $1.8 billion and Key Community Bank up $1 billion. We have experienced growth in new high credit quality loan commitments, and utilization with clients in our middle market segment, and as well as our Institutional and Capital Markets business. While there was loan growth in most industry classifications compared to the year ago quarter, the most significant growth occurred in the public utilities industry classification, which increased by 52.9%. Our two largest industry classifications services and manufacturing increased by 15.5% and 9.3%, respectively, when compared to the year ago quarter. The services and manufacturing industries represented 23.2% and 17.3%, respectively, of the total commercial, financial and agricultural loan portfolio at June 30, 2013, compared to 22.8% and 17.9%, respectively, at June 30, 2012. At the end of each of the quarterly periods provided in Figure 19 above, loans in the services and manufacturing industry classifications accounted for over 40% of our total commercial, financial and agricultural loan portfolio.

Services and manufacturing are focus areas where we maintain dedicated industry verticals that are staffed by relationship managers who possess deep industry experience and knowledge. Our loans in the services classification grew by $740 million, or 15.5%, compared to last year. The growth in the services loan portfolio was largely related to increases in lending to large corporate, middle market, and business banking clients and was partially offset by decreases in loans to clients in private bank and real estate. Loans in the manufacturing classification grew by $350 million, or 9.3%, compared to the same period one year ago. Increases in lending to large corporate, middle market, and business banking clients accounted for the majority of the growth in this classification.

Commercial real estate loans. Our commercial real estate (CRE) lending business is conducted through two primary sources: our 14-state banking franchise, and KeyBank Real Estate Capital, a national line of business that cultivates relationships with owners of CRE located both within and beyond the branch system. This line of business deals primarily with nonowner-occupied properties (generally properties for which at least 50% of the debt service is provided by rental income from nonaffiliated third parties) and accounted for approximately 57% of our average year-to-date commercial real estate loans, compared to 68% one year ago. KeyBank Real Estate Capital generally focuses on larger owners and operators of commercial real estate.

CRE loans represent 16% of our total loan portfolio at June 30, 2013 compared to 17% one year ago. These loans include both owner and nonowner occupied properties which at June 30, 2013 represented 23% of our commercial loan portfolio compared to 25% one year ago. These loans have decreased $47 million, or 0.6%, to $8.5 billion at June 30, 2013, from $8.6 billion at June 30, 2012. This decrease in our CRE portfolio has resulted from many of our clients taking advantage of historically low long-term interest rates to refinance their loans in the permanent loan market. We have also been de-risking the portfolio by changing our focus from developers to owners of completed and stabilized CRE.

Figure 20 includes commercial mortgage and construction loans in both Key Community Bank and Key Corporate Bank. As shown in Figure 20, this loan portfolio is diversified by both property type and geographic location of the underlying collateral.

As shown in Figure 20, at June 30, 2013, our CRE portfolio included mortgage loans of $7.5 billion and construction loans of $1.1 billion, representing 14% and 2%, respectively, of our total loans. At June 30, 2013, nonowner-occupied loans represented 64% of our total CRE loans and owner-occupied loans represented 36% of our total CRE loans. The average size of mortgage loans originated during the second quarter of 2013 was $3.5 million, and our largest mortgage loan at June 30, 2013, had a balance of $73 million. At June 30, 2013, our average construction loan commitment was $4.5 million. Our largest construction loan commitment was $56.7 million, and our largest construction loan amount outstanding was $56 million.

Also shown in Figure 20, 65% of our commercial real estate loans at both June 30, 2013 and 2012 were for nonowner-occupied properties. Approximately 16% and 18% of these loans were construction loans at June 30, 2013 and 2012, respectively. Typically, these properties are not fully leased at the origination of the loan. The borrower relies upon additional leasing through the life of the loan to provide the cash flow necessary to support debt service payments. A significant decline in economic growth, and in turn, rental rates and occupancy would adversely affect our portfolio of construction loans.

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Figure 20. Commercial Real Estate Loans

	Geographic Region						Percent of	
	Southwest	Central	Midwest	Southeast	Northeast	Total	Total	C
153	$ 124	$ 108	$ 94	$ 317	$ 178	$ 974	11.4 %	$
250	59	295	444	555	174	1,777	20.8	
186		208	140	107	178	819	9.6	
151	18	97	148	21	106	541	6.3	
186		17	83	110	115	511	6.0	
16		1	4	73	2	96	1.1	
10	5		21	49	15	100	1.2	
11		23	46	25	26	131	1.6	
11		14	8	15	16	64	0.8	
95		25	57	99	212	488	5.7	
069	206	788	1,045	1,371	1,022	5,501	64.5	
269	36	327	712	59	630	3,033	35.5	
338	$ 242	$ 1,115	$ 1,757	$ 1,430	$ 1,652	$ 8,534	100.0 %	
3	$ 18	$	$ 12	$ 44	$ 11	$ 88	N/M	
			6		1	7	N/M	
1			5	3	1	10	N/M	

West	Alaska, California, Hawaii, Idaho, Montana, Oregon, Washington and Wyoming
Southwest	Arizona, Nevada and New Mexico
Central	Arkansas, Colorado, Oklahoma, Texas and Utah
Midwest	

	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin
Southeast	Alabama, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, Washington D.C. and West Virginia
Northeast	Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont

In the first six months of 2013, nonperforming loans related to nonowner-occupied properties decreased by $39 million from December 31, 2012 to $88 million at June 30, 2013, and also decreased by $80 million when compared to June 30, 2012. Our nonowner occupied commercial real estate portfolio has increased by 0.3%, or approximately $17 million, since June 30, 2012.

If the economic recovery stalls, it may weaken the commercial real estate market fundamentals (i.e., vacancy rates, the stability of rental income and asset values), leading to reduced cash flow to support debt service payments. Reduced client cash flow would adversely affect our ability to collect such payments. Accordingly, the value of our commercial real estate loan portfolio could be adversely affected.

Commercial lease financing. We conduct commercial lease financing arrangements through our Key Equipment Finance line of business and have both the scale and array of products to compete in the equipment lease financing business. Commercial lease financing receivables represented 13% of commercial loans at June 30, 2013, and 15% at June 30, 2012.

Commercial loan modification and restructuring

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

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

Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. Loan extensions are sometimes coupled with these primary concession types. Because economic conditions have improved modestly and we have restructured loans to provide the optimal opportunity for successful repayment by the borrower,

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certain of our restructured loans have returned to accrual status and consistently performed under the restructured loan terms over the past year.

If the loan terms are extended at less than normal market rates for similar lending arrangements, our Asset Recovery Group is consulted to help determine if any concession granted would result in designation as a TDR. Transfer to our Asset Recovery Group is considered for any commercial loan determined to be a TDR. During the second quarter of 2013, there were $40 million of new restructured commercial loans.

For more information on concession types for our commercial accruing and nonaccruing TDRs, see Note 4 (Asset Quality).

Figure 21. Commercial TDRs by Note Type and Accrual Status

		June 30, 2013		March 31, 2013		December 31, 2012		September 30, 2012	
DRs by Note Type									
	$	102	$	101	$	117	$	166	$
ial TDRs	$	102	$	101	$	117	$	166	$
DRs by Accrual Status									
	$	50	$	52	$	96	$	114	$
		52		49		21		52	
ial TDRs	$	102	$	101	$	117	$	166	$

We often use an A-B note structure for our TDRs, breaking the existing loan into two tranches. First, we create an A note. As the objective of this TDR note structure is to achieve a fully performing and well-rated A note, we focus on sizing that note to a level that is supported by cash flow available to service debt at current market terms and consistent with our customary underwriting standards. This note structure typically will include a debt coverage ratio of 1.2 or better of cash flow to monthly payments of market interest, and principal amortization of generally not more than 25 years. (These metrics are adjusted from time to time based upon changes in long-term markets and take out underwriting standards of our various lines of business.) Appropriately sized A notes are more likely to return to accrual status, allowing us to resume recognizing interest income. As the borrower s payment performance improves, these restructured notes typically also allow for an upgraded internal quality risk rating classification. Moreover, the borrower retains ownership and control of the underlying collateral (typically, commercial real estate), the borrower s capital structure is strengthened (often to the point that fresh capital is attracted to the transaction), and local markets are spared distressed/fire sales.

The B note typically is an interest-only note with no required amortization until the property stabilizes and generates excess cash flow. This excess cash flow customarily is applied directly to the principal of the A note. We evaluate the B note when we consider returning the A note to accrual status. In many cases, the B note is charged off at the same time the A note is returned to accrual status. Alternatively, both A and B notes may be simultaneously returned to accrual if credit metrics are supportive.

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

All loans processed as TDRs, including A notes and any non-charged-off B notes, are reported as TDRs during the calendar year in which the restructure took place.

Additional information regarding TDRs is provided in Note 4 (Asset Quality).

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

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

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

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

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

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

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

As of June 30, 2013, we had $6.8 million of mortgage and construction loans that had a loan-to-value ratio greater than 1.0, and were accounted for as performing loans. These loans were not considered impaired due to one or more of the following factors: (i) underlying cash flow adequate to service the debt at a market rate of return with adequate amortization; (ii) a satisfactory borrower payment history; and (iii) acceptable guarantor support.

Consumer loan portfolio

Consumer loans outstanding increased by $1.1 billion, or 7.2%, from one year ago. The home equity portfolio is the largest segment of our consumer loan portfolio. Approximately 96% of this portfolio at June 30, 2013, is derived from our Key Community Bank within our 13 state footprint. The remainder of the portfolio, which has been in an exit mode since the fourth quarter of 2007, was originated from the Consumer Finance line of business and is now included in Other Segments. Home equity loans in Key Community Bank increased by $572 million, or 6%, over the past twelve months as a result of stabilized home values, improved employment, and favorable borrowing conditions.

As shown in Figure 17, we hold the first lien position for approximately 57% of the Key Community Bank home equity portfolio at June 30, 2013, and 54% at June 30, 2012. For consumer loans with real estate collateral, we track borrower performance monthly. Regardless of the lien position, credit metrics are refreshed quarterly, including recent Fair Isaac Corporation scores as well as original and updated loan-to-value ratio. This information is used in establishing the ALLL. Our methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses that begins on page 120 of our 2012 Form 10-K.

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Regulatory guidance issued in January 2012 addressed specific risks and required actions within home equity portfolios associated with second lien loans. At June 30, 2013, 43% of our home equity portfolio is secured by second lien mortgages. On at least a quarterly basis, we continue to monitor the risk characteristics of these loans when determining whether our loss estimation methods are appropriate.

Figure 22 summarizes our home equity loan portfolio by source at the end of each of the last five quarters, as well as certain asset quality statistics and yields on the portfolio as a whole.

Figure 22. Home Equity Loans

	2013		2012		
ars in ions	**Second**	**First**	**Fourth**	**Third**	**Secon**
URCES PERIOD D LOANS					
nmunity k	**$ 10,173**	**$ 9,809**	$ 9,816	$ 9,768	$ 9,601
er	**375**	**401**	423	409	479
l	**$ 10,548**	**$ 10,210**	$ 10,239	$ 10,177	$ 10,080
performing s at period	**$ 221**	**$ 217**	$ 231 (a), (b)	$ 189 (a), (b)	$ 158
loan ge-offs for period	**19**	**20**	(7)	67	28
d for the od (c)	**4.07 %**	**4.12 %**	4.16 %	4.19 %	4.23

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

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

(c) From continuing operations.

Loans held for sale

As shown in Note 3 (Loans and Loans Held for Sale), our loans held for sale decreased to $402 million at June 30, 2013 from $599 million at December 31, 2012 and totaled $656 million at June 30, 2012.

At June 30, 2013, loans held for sale included $318 million of commercial mortgages, which decreased by $205 million from June 30, 2012, and $48 million of residential mortgage loans, which decreased $42 million from June 30, 2012.

Loan sales

As shown in Figure 23, during the first six months of 2013, we sold $1,695 million of commercial real estate loans, $554 million of residential real estate loans, $159 million of commercial lease financing loans, and $219 million of commercial loans. Most of these sales came from the held-for-sale portfolio; however, $78 million of these loan sales related to the held-to-maturity portfolio.

Loan sales classified as held for sale generated net gains of $64 million in the first six months of 2013 and are included in investment banking and debt placement fees and other income on the income statement.

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

¿ our business strategy for particular lending areas;

¿ whether particular lending businesses meet established performance standards or fit with our relationship banking strategy;

¿ our A/LM needs;

¿ the cost of alternative funding sources;

¿ the level of credit risk;

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¿ capital requirements; and

¿ market conditions and pricing.

Figure 23 summarizes our loan sales for the first six months of 2013 and all of 2012.

Figure 23. Loans Sold (Including Loans Held for Sale)

	Commercial	Commercial Real Estate	Commercial Lease Financing	Residential Real Estate	
	$ 181	**$ 815**	**$ 90**	**$ 226**	**$**
	38	**880**	**69**	**328**	
	$ 219	**$ 1,695**	**$ 159**	**$ 554**	**$**
	$ 38	$ 1,233	$ 53	$ 493	$
	46	787	47	503	
	24	808	26	379	
	36	715	22	400	
	$ 144	$ 3,543	$ 148	$ 1,775	$

ns that are either administered or serviced by us, but not recorded on the balance sheet. The table includes loans

Figure 24. Loans Administered or Serviced

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012	
ate loans [a]	**$ 172,398**	**$ 109,173**	$ 107,630	$ 98,309	$
nancing	**548**	**516**	520	519	

	352		**353**		343		333	
$	**173,298**	**$**	**110,042**	$	108,493	$	99,161	$

(a) The increase in commercial real estate loans from the first quarter of 2013 relates to the $63.2 billion of loans associated with the commercial servicing portfolio acquired from Bank of America on June 24, 2013.

In the event of default by a borrower, we are subject to recourse with respect to approximately $1.2 billion of the $173 billion of loans administered or serviced at June 30, 2013. Additional information about this recourse arrangement is included in Note 15 (Contingent Liabilities and Guarantees) under the heading Recourse agreement with FNMA.

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

Securities

Our securities portfolio totaled $18 billion at June 30, 2013, compared to $16 billion at December 31, 2012, and $17.6 billion at June 30, 2012. Available-for-sale securities were $13.3 billion at June 30, 2013, compared to $12.1 billion at December 31, 2012, and $13.2 billion at June 30, 2012. Held-to-maturity securities were $4.7 billion at June 30, 2013, compared to $3.9 billion at December 31, 2012, and $4.4 billion at June 30, 2012. Essentially all of our held-to-maturity securities portfolio was invested in CMOs at June 30, 2013.

As shown in Figure 25, all of our mortgage-backed securities, which include both securities available for sale and held-to-maturity securities, are issued by government-sponsored enterprises or GNMA, and are traded in highly liquid secondary markets. These securities are recorded on the balance sheet at fair value for the available-for-sale portfolio and at cost for the held-to-maturity portfolio. For more information about these securities, see Note 5 (Fair Value Measurements) under the heading Qualitative Disclosures of Valuation Techniques and Note 6 (Securities).

Figure 25. Mortgage-Backed Securities by Issuer

in millions		June 30, 2013		December 31, 2012		June 30, 2012
FHLMC	**$**	**7,864**	$	7,923	$	8,829
FNMA		**6,127**		5,246		5,598
GNMA		**3,928**		2,746		3,036
Total [(a)]	**$**	**17,919**	$	15,915	$	17,463

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

Securities available for sale

The majority of our securities available-for-sale portfolio consists of CMOs, which are debt securities secured by a pool of mortgages or mortgage-backed securities. CMOs generate interest income and serve as collateral to support certain pledging agreements. At June 30, 2013, we had $13.2 billion invested in CMOs and other mortgage-backed securities in the available-for-sale portfolio, compared to $12 billion at December 31, 2012, and $13.1 billion at June 30, 2012.

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

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

Throughout 2012 and in the first half of 2013, our investing activities continued to complement other balance sheet developments and provide for our ongoing liquidity management needs. Our actions to not reinvest the monthly security cash flows at various times during this time period served to provide the liquidity necessary to address our funding requirements. These funding requirements included ongoing loan growth and occasional debt maturities, as well as the Western New York branch acquisition in July 2012 (including credit card assets obtained in September 2012) and the acquisition of Key-branded credit card assets in August 2012.

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Figure 26 shows the composition, yields and remaining maturities of our securities available for sale. For more information about these securities, including gross unrealized gains and losses by type of security and securities pledged, see Note 6 (Securities).

Figure 26. Securities Available for Sale

llars in llions	**States and Political Subdivisions**	**Collateralized Mortgage Obligations**	**Other Mortgage-Backed Securities**	**Other Securities** [(b)]	**Total**	**Weighted-Average Yield**
ne 30, 2013						
emaining aturity:						
ne year or less	**$ 1**	**$ 658**	**$ 1**		**$ 660**	**3.26 %**
fter one through e years	**17**	**11,777**	**519**	**$ 22**	**12,335**	**2.41**
fter five through n years	**26**	**168**	**61**		**255**	**2.36**
fter ten years			**3**		**3**	**5.95**
ir value	**$ 44**	**$ 12,603**	**$ 584**	**$ 22**	**$ 13,253**	
mortized cost	**43**	**12,503**	**555**	**19**	**13,120**	**2.45 %**
eighted-average eld [(c)]	**6.02 %**	**2.36 %**	**4.30 %**		**2.45 %** [(d)]	
eighted-average aturity	**5.2 years**	**3.2 years**	**3.0 years**	**1.5 years**	**3.1 years**	
ecember 31, 12						
ir value	$ 49	$ 11,464	$ 538	$ 43	$ 12,094	
mortized cost	47	11,148	491	42	11,728	2.91 %
ne 30, 2012						
ir value	$ 56	$ 12,477	$ 652	$ 20	$ 13,205	
mortized cost	53	12,098	597	20	12,768	3.19 %

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

(b) Includes primarily marketable equity securities.

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

(d) Excludes $22 million of securities at June 30, 2013, that have no stated yield.

Held-to-maturity securities

Federal Agency CMOs constitute essentially all of our held-to-maturity securities. The remaining balance is comprised of foreign bonds and capital securities. Figure 27 shows the composition, yields and remaining maturities of these securities.

Figure 27. Held-to-Maturity Securities

dollars in millions	**Collateralized Mortgage Obligations**	**Other Securities**	**Total**	**Weighted-Average Yield** [(a)]
June 30, 2013				
Remaining maturity:				
One year or less		**$ 10**	**$ 10**	**3.88 %**
After one through five years	**$ 4,732**	**8**	**4,740**	**1.82**
Amortized cost	**$ 4,732**	**$ 18**	**$ 4,750**	**1.82 %**
Fair value	**4,698**	**18**	**4,716**	
Weighted-average yield	**1.82 %**	**2.96 %** [(b)]	**1.82 %** [(b)]	
Weighted-average maturity	**3.3 years**	**1.1 years**	**3.3 years**	
December 31, 2012				
Amortized cost	$ 3,913	$ 18	$ 3,931	1.92 %
Fair value	3,974	18	3,992	
June 30, 2012				
Amortized cost	$ 4,334	$ 18	$ 4,352	1.92 %
Fair value	4,378	18	4,396	

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

(b) Excludes $5 million of securities at June 30, 2013, that have no stated yield.

Other investments

Principal investments investments in equity and mezzanine instruments made by our Principal Investing unit represented 59% of other investments at June 30, 2013. They include direct investments (investments made in a particular company) as well as indirect investments (investments made through funds that include other investors). Principal investments are predominantly made in privately held companies and are carried at fair value ($612 million at June 30, 2013, $627 million at December 31, 2012, and $724 million at June 30, 2012).

In addition to principal investments, other investments include other equity and mezzanine instruments, such as certain real estate-related investments that are carried at fair value, as well as other types of investments that generally are carried at cost.

Most of our other investments are not traded on an active market. We determine the fair value at which these investments should be recorded based on the nature of the specific investment and all available relevant information. This review may encompass such factors as the issuer s past financial performance and future potential, the values of public companies in comparable businesses, the risks associated with the particular business or investment type, current market conditions, the nature and duration of resale restrictions, the issuer s payment history, our knowledge of the industry, third-party data and other relevant factors. During the first six months of 2013, net gains from our principal investing activities (including results attributable to noncontrolling interests) totaled $15 million, which includes $2 million of net unrealized losses. These net gains are recorded as net gains (losses) from principal investing on the income statement. Additional information regarding these investments is provided in Note 5 (Fair Value Measurements).

Deposits and other sources of funds

Domestic deposits are our primary source of funding. During the second quarter of 2013, average domestic deposits were $64.9 billion and represented 86% of the funds we used to support loans and other earning assets, compared to $60.3 billion and 84% during the same quarter of 2012. The composition of our average deposits is shown in Figure 9 in the section entitled Net interest income.

The increase in average domestic deposits in the second quarter of 2013, compared to the second quarter of 2012, was due to the growth in demand deposits of $2.7 billion and interest-bearing non-time deposits of $4.2 billion (including the impact of our third quarter 2012 Western New York branch acquisition, which added $2 billion of mostly interest-bearing non-time deposits). This deposit growth was partially offset by $2.3 billion of run-off from one year ago in certificates of deposit and other time deposits. Improved funding mix and previous maturities of our certificates of deposit have reduced the cost of total domestic deposits from .47% for the second quarter of 2012 to .26% for the second quarter of 2013.

Wholesale funds, consisting of deposits in our foreign office and short-term borrowings, averaged $2.8 billion during second quarter of 2013, compared to $3.1 billion during second quarter of 2012. The change from 2012 resulted from a $186 million decrease in foreign office deposits, a $101 million decrease in bank notes and other short-term borrowings, and a $35 million decrease in federal funds purchased and securities sold under agreements to repurchase.

Capital

At June 30, 2013, our shareholders equity was $10.2 billion, down $42 million from December 31, 2012. The following sections discuss certain factors that contributed to this change. For other factors that contributed to the change, see the Consolidated Statements of Changes in Equity.

CCAR and capital actions

As part of its ongoing supervisory process, the Federal Reserve requires BHCs like KeyCorp to submit an annual comprehensive capital plan and to update that plan to reflect material changes in a firm s risk profile, business strategies, or corporate structure, including but not limited to changes in planned capital actions. As previously reported, on January 7, 2013, we submitted to the Federal Reserve and provided to the OCC under the annual CCAR process our 2013 capital plan. On March 14, the Federal Reserve announced that it did not object to our 2013 capital plan. At its March 2013 meeting, our Board authorized up to $426 million of Common Share repurchases in the open market or through privately negotiated transactions. The authorization was expressly in addition to any amounts remaining under preexisting authority. 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.

During the second quarter of 2013, we completed $112 million of Common Share repurchases on the open market under our 2013 capital plan.

Dividends

As previously reported, 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. Other changes to future dividends may be evaluated by the Board of Directors based upon our earnings, financial condition, and other factors, including regulatory review. Further information regarding the capital plan process and CCAR is included in the Supervision and Regulation section of our 2012 Form 10-K in Item 1. Business under the heading Capital Assessment and Review of Capital Actions.

During the second quarter of 2013, we made a dividend payment of $.055 per Common Share, or $49 million, on our Common Shares. We made a dividend payment of $.05 per share, or $47 million, during the first quarter of 2013.

Also in the second quarter of 2013, we made a dividend payment of $1.9375 per share, or $6 million, on our Series A Preferred Stock.

Common shares outstanding

Our Common Shares are traded on the NYSE under the symbol KEY with 31,261 holders of record at June 30, 2013. At June 30, 2013 our book value per Common Share was $10.89 based on 912.9 million shares outstanding at June 30, 2013, compared to $10.78 based on 925.8 million shares outstanding at December 31, 2012, and $10.43 based on 945.5 million shares outstanding at June 30, 2012. At June 30, 2013 our tangible book value per Common Share was $9.77 compared to $9.67 at December 31, 2012, and $9.45 at June 30, 2012.

Figure 28 shows activities that caused the change in outstanding Common Shares over the past five quarters.

Figure 28. Changes in Common Shares Outstanding

	2013		**2012**		
in thousands	**Second**	**First**	**Fourth**	**Third**	**Second**
Shares outstanding at beginning of period	**922,581**	925,769	936,195	945,473	956,102
Common shares issued (repurchased)	**(10,786)**	(6,790)	(10,530)	(9,639)	(10,468)
Shares reissued (returned) under employee benefit plans	**1,088**	3,602	104	361	(161)
Shares outstanding at end of period	**912,883**	922,581	925,769	936,195	945,473

As shown above, Common Shares outstanding decreased by 9.7 million shares during the second quarter of 2013 from share repurchases under our 2013 capital plan and the net activity in our employee benefit plans.

At June 30, 2013, we had 104.1 million treasury shares, compared to 91.2 million treasury shares at December 31, 2012 and 71.5 million treasury shares at June 30, 2012. Going forward we expect to reissue treasury shares as needed in connection with stock-based compensation awards and for other corporate purposes.

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

Capital adequacy

Capital adequacy is an important indicator of financial stability and performance. All of our capital ratios remain in excess of regulatory requirements at June 30, 2013. Our capital and liquidity are intended to position us to weather an adverse credit cycle while continuing to serve our clients needs, as well as to adjust to the Regulatory Capital Rules described in this report under the heading Supervision and regulation. . Our shareholders equity to assets ratio was 11.29% at June 30, 2013, compared to 11.51% at December 31, 2012 and 11.74% at June 30, 2012. Our tangible common equity to tangible assets ratio was 9.96% at June 30, 2013, compared to 10.15% at December 31, 2012 and 10.44% at June 30, 2012.

Banking industry regulators prescribe minimum capital ratios for BHCs like KeyCorp and their banking subsidiaries. Risk-based capital guidelines require a minimum level of capital as a percent of risk-weighted assets. Risk-weighted assets consist of total assets plus certain off-balance sheet and market risk items, subject to adjustment for predefined credit risk factors. Currently, banks and BHCs must maintain, at a minimum, Tier 1 capital as a percent of risk-weighted assets of 4.00% and total capital as a percent of risk-weighted assets of 8.00%. As of June 30, 2013, our Tier 1 risk-based capital ratio and our total risk-based capital ratios were 11.93% and 14.65%, respectively, compared to 12.15% and 15.13%, respectively, at December 31, 2012 and 12.45% and 15.83%, respectively at June 30, 2012.

Another indicator of capital adequacy, the leverage ratio, is defined as Tier 1 capital as a percentage of average quarterly tangible assets. BHCs that either have the highest supervisory rating or have implemented the Federal Reserve s risk-adjusted measure for market risk as we have must maintain a minimum leverage ratio of 3.00%. All other BHCs must maintain a minimum ratio of 4.00%. As of June 30, 2013, our leverage ratio was 11.25%, compared to 11.41% at December 31, 2012 and 11.35% at June 30, 2012.

The adoption of the Regulatory Capital Rules changes the regulatory capital standards that apply to BHCs by phasing out the treatment of capital securities and cumulative preferred securities as eligible Tier 1 capital. The phase-out period, beginning January 1, 2015, will result in our trust preferred securities issued by the KeyCorp capital trusts being treated only as Tier 2 capital by 2016. These changes apply the same leverage and risk-based capital requirements that apply to depository institutions to BHCs, savings and loan holding companies, and nonbank financial companies identified as systemically important. The section titled Supervision and regulation of this report contains more detailed information regarding the Regulatory Capital Rules, and the section titled Supervision and Regulation under Item 1. Business of our 2012 Form 10-K contains additional information regarding capital.

As of June 30, 2013, our Tier 1 risk-based capital ratio, leverage ratio, and total risk-based capital ratio were 11.93%, 11.25%, and 14.65%, respectively. The trust preferred securities issued by the KeyCorp capital trusts contribute $339 million or 41, 39, and 41 basis points to our Tier 1 risk-based capital ratio, Tier 1 leverage ratio, and total risk-based capital ratio, respectively, as of June 30, 2013. The new minimum capital ratios together with the estimated capital ratios of Key at June 30, 2013, calculated on a fully phased-in basis under the Regulatory Capital Rules are set forth in

Figure 4 of this report.

Federal bank regulators group FDIC-insured depository institutions into five categories, ranging from well-capitalized to critically undercapitalized. A well-capitalized institution must meet or exceed the prescribed threshold ratios of 6.00% for Tier 1 risk-based capital, 5.00% for Tier 1 leverage capital, and 10.00% for total risk-based capital and must not be subject to any written agreement, order or directive to meet and maintain a specific capital level for any capital measure. If these provisions applied to BHCs, we believe we would qualify as well-capitalized at June 30, 2013, and we believe there has not been any change in condition or event since that date that would cause a change in capital category. Analysis on an estimated basis, accounting for the phase-out of our trust preferred securities as Tier 1 eligible (and therefore as Tier 2 instead) as of June 30, 2013, also determines that we would qualify as well-capitalized under current regulatory guidelines (Basel I), with the estimated Tier 1 risk-based capital ratio, estimated leverage ratio, and estimated total risk-based capital ratio being 11.52%, 10.86%, and 14.65%, respectively. Figure 6 in the Supervision and regulation section above, describes

the new threshold capital ratios for a well capitalized and an adequately capitalized institution under the Regulatory Capital Rules. The regulatory defined capital categories serve a limited supervisory function. Investors should not use our estimated ratios as a representation of our overall financial condition or prospects of KeyCorp. A discussion of the regulatory capital standards and other related capital adequacy regulatory standards is included in the section Supervision and Regulation under Item 1. Business of our 2012 Form 10-K under the heading Capital.

Traditionally, the banking regulators have assessed bank and BHC capital adequacy based on both the amount and composition of capital, the calculation of which is prescribed in federal banking regulations. As a result of the financial crisis, the Federal Reserve has intensified its assessment of capital adequacy on a component of Tier 1 risk-based capital, known as Tier 1 common equity, and its review of the consolidated capitalization of systemically important financial companies, including KeyCorp. The capital modifications mandated by the Regulatory Capital Rules are consistent with the renewed focus on Tier 1 common equity and the consolidated capitalization of banks, BHCs, and covered nonbank financial companies, which resulted from the financial crisis. Tier 1 common equity is neither formally defined by GAAP nor prescribed in amount by federal banking regulations; this measure is considered to be a non-GAAP financial measure. Figure 8 in the Highlights of Our Performance section reconciles Key shareholders equity, the GAAP performance measure, to Tier 1 common equity, the corresponding non-GAAP measure. Our Tier 1 common equity ratio was 11.18% at June 30, 2013, compared to 11.36% at December 31, 2012 and 11.63% at June 30, 2012.

Generally, for risk-based capital purposes, deferred tax assets that are dependent upon future taxable income are limited to the lesser of: (i) the amount of deferred tax assets that a financial institution expects to realize within one year of the calendar quarter-end date, based on its projected future taxable income for the year, or (ii) 10% of the amount of an institution s Tier 1 capital. At June 30, 2013, December 31, 2012 and June 30, 2012, we had no net deferred tax assets deducted from Tier 1 capital and risk-weighted assets. At June 30, 2013, for Key s consolidated operations, we had a federal net deferred tax asset of $151 million and a state deferred tax liability of $4 million compared to a federal deferred tax asset of $83 million and $61 million and a state deferred tax liability of $13 million and $27 million at December 31, 2012 and June 30, 2012, respectively. We have recorded a valuation allowance of $2 million against the gross deferred tax assets associated with certain state net operating loss carryforwards and state credit carryforwards.

Regulatory Capital Rules

The Regulatory Capital Rules provide for the phase-out of Tier 1 capital treatment for capital securities beginning in January 2015. As a result, our outstanding trust preferred securities will, by 2016, become Tier 2 capital. The Supervision and regulation section of this report contains a more detailed discussion of the Regulatory Capital Rules. Figure 5 in the Supervision and regulation section above discloses the new minimum capital ratios together with the estimated capital ratios of Key at June 30, 2013, calculated on a fully phased-in basis under the Regulatory Capital Rules. Given our strong capital position, we expect to be able to satisfy the capital framework established under the Regulatory Capital Rules on our compliance date of January 1, 2015.

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Figure 29 represents the details of our regulatory capital position at June 30, 2013, December 31, 2012 and June 30, 2012, under the existing Basel I standards.

Figure 29. Capital Components and Risk-Weighted Assets

dollars in millions		**June 30, 2013**		December 31, 2012		June 30, 2012
TIER 1 CAPITAL						
Key shareholders equity	**$**	**10,229**	$	10,271	$	10,155
Qualifying capital securities		**339**		339		339
Less: Goodwill		**979**		979		917
Accumulated other comprehensive income (a)		**(359)**		(172)		(109)
Other assets (b)		**101**		114		71
Total Tier 1 capital		**9,847**		9,689		9,615
TIER 2 CAPITAL						
Allowance for losses on loans and liability for losses on lending-related commitments (c)		**953**		972		969
Net unrealized gains on equity securities available for sale		**2**				
Qualifying long-term debt		**1,287**		1,405		1,645
Total Tier 2 capital		**2,242**		2,377		2,614
Total risk-based capital	**$**	**12,087**	$	12,066	$	12,229
TIER 1 COMMON EQUITY						
Tier 1 capital	**$**	**9,847**	$	9,689	$	9,615
Less: Qualifying capital securities		**339**		339		339
Series A Preferred Stock		**282**		291		291
Total Tier 1 common equity	**$**	**9,220**	$	9,059	$	8,985
RISK-WEIGHTED ASSETS						
Risk-weighted assets on balance sheet	**$**	**64,637**	$	63,995	$	61,434
Risk-weighted off-balance sheet exposure		**17,526**		16,575		16,148
Less: Goodwill		**979**		979		917
Other assets (b)		**348**		368		423
Plus: Market risk-equivalent assets		**1,692**		511		1,043

Gross risk-weighted assets		**82,528**		79,734		77,285
Less: Excess allowance for loan and lease losses						49
Net risk-weighted assets	**$**	**82,528**	$	79,734	$	77,236
AVERAGE QUARTERLY TOTAL ASSETS	**$**	**88,853**	$	86,239	$	86,072
CAPITAL RATIOS						
Tier 1 risk-based capital		**11.93 %**		12.15 %		12.45 %
Total risk-based capital		**14.65**		15.13		15.83
Leverage [(d)]		**11.25**		11.41		11.35
Tier 1 common equity		**11.18**		11.36		11.63

(a) Includes net unrealized gains or losses on securities available for sale (except for net unrealized losses on marketable equity securities), net gains or losses on cash flow hedges, and amounts resulting from the application of the applicable accounting guidance for defined benefit and other postretirement plans.

(b) Other assets deducted from Tier 1 capital and risk-weighted assets consist of disallowed deferred tax assets, disallowed intangible assets (excluding goodwill) and deductible portions of nonfinancial equity investments. There were no disallowed deferred tax assets at June 30, 2013, 2013, December 31, 2012, and June 30, 2012.

(c) The allowance for loan and lease losses included in Tier 2 capital is limited by regulation to 1.25% of the sum of gross risk-weighted assets plus low level exposures and residual interests calculated under the direct reduction method, as defined by the Federal Reserve. The allowance for loan and lease losses includes $41 million, $55 million, and $79 million at June 30, 2013, December 31, 2012, and June 30, 2012, respectively, of allowance classified as discontinued assets on the balance sheet.

(d) This ratio is Tier 1 capital divided by average quarterly total assets as defined by the Federal Reserve less: (i) goodwill, (ii) the disallowed intangible assets described in footnote (b), and (iii) deductible portions of nonfinancial equity investments; plus assets derecognized as an offset to AOCI resulting from the adoption and subsequent application of the applicable accounting guidance for defined benefit and other postretirement plans.

Risk Management

Overview

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

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

The Board s Audit Committee assists the Board in oversight of financial statement integrity, regulatory and legal compliance, independent auditors qualifications and independence and all risk review functions including internal audit. The Audit Committee discusses policies related to risk assessment and risk management and the processes related to risk review and compliance. The Audit Committee has responsibility over financial reporting, compliance risk and legal matters, the implementation, management and evaluation of operational risk controls and information, security and fraud risk, and associated reputation and strategic risks.

The Board s Risk Committee assists the Board in oversight of strategies, policies, procedures and practices relating to the management of credit risk, market risk, interest rate risk, and liquidity risk, including the actions taken to mitigate these risks, as well as reputational and strategic risks. The Risk Committee also oversees the maintenance of appropriate regulatory and economic capital, reviews the Enterprise Risk Management (ERM) reports, and approves any material changes to the charter of the ERM Committee.

The Audit and Risk Committees meet jointly, as appropriate, to discuss matters that relate to each committee s responsibilities. In addition to regularly scheduled bi-monthly meetings, the Audit Committee convenes to discuss the content of our financial disclosures and quarterly earnings releases. Committee chairpersons routinely meet with management during interim months to plan agendas for upcoming meetings and to discuss emerging trends and events that have transpired since the preceding meeting. All members of the Board receive formal reports designed to keep them abreast of significant developments during the interim months.

Our ERM Committee, chaired by the Chief Executive Officer and comprised of other senior level executives, is responsible for managing risk and ensuring that the corporate risk profile is managed in a manner consistent with our risk appetite. The ERM Program encompasses our risk philosophy, policy, framework and governance structure for the management of risks across the entire company. The ERM Committee reports to the Board s Risk Committee. Annually, the Board reviews and approves the ERM Program, as well as the risk appetite and corporate risk tolerances for major risk categories. We use a risk-adjusted capital framework to manage risks. This framework is approved and managed by the ERM Committee.

Tier 2 Risk Governance Committees support the ERM Committee by identifying early warning events and trends, escalating emerging risks and discussing forward-looking assessments. Membership of the Risk Governance Committees includes representatives from each of the Three Lines of Defense. The First Line of Defense is the Line of Business primarily responsible to accept, own, proactively identify, monitor and manage risk. The Second Line of

Defense comprises Risk Management representatives who provide independent, centralized oversight over all risk categories by aggregating, analyzing and reporting risk information. Risk Review provides the Third Line of Defense in their role to provide independent assessment and testing of the effectiveness, appropriateness and adherence to KeyCorp s risk management policies, practices and controls.

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

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

Market risk management

The cash flows and values of financial instruments change as a function of changes in market rates or prices, such as interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, or volatilities. These factors influence prospective yields, values, or prices associated with the instrument. For example, the value of a fixed-rate bond will decline when market interest rates increase, while the cash flows associated with a variable rate loan will increase when interest rates increase. The holder of a financial instrument is exposed to market risk when either the cash flows or the value of the instrument is tied to such external factors.

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

Trading market risk

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

Management of trading market risks. Market risk management is an integral part of Key s risk culture. The Market Risk Committee, headed by our Chief Market Risk Officer, along with the Risk Committee of our Board and the ERM Committee (collectively, the Committees) provide oversight of the management of trading market risks. Market risk policies and procedures have been defined and approved by the Market Risk Committee and take into account our tolerance for risk and consideration for the business environment. The Committees regularly review and discuss market risk reports prepared by our Market Risk Management group (MRM) that contain our market risk exposures and results of monitoring activities.

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

Covered positions. We monitor the market risk of our covered positions, which includes all of our trading positions as well as all foreign exchange and commodity positions, regardless of whether the position is in a trading account. The trading account includes on-and off-balance sheet positions in financial instruments acquired with the intent to profit from price variations. All positions in the trading account are recorded at fair value, and changes in fair value are reflected in our consolidated statements of income. Information regarding our fair value policies, procedures and methodologies is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value

Measurements on page 122 of our 2012 Form 10-K and Note 5 (Fair Value Measurements) in this report. Instruments that are used to hedge nontrading activities, such as bank issued debt and loan portfolios, equity positions that are not actively traded, and securities financing activities do not meet the definition of a covered position. MRM is responsible for identifying our portfolios as either covered or non-covered. The Covered Position Working Group develops the final list of covered positions, and a summary is provided to the Market Risk Committee.

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

Fixed income includes those instruments associated with our capital markets business and the trading of securities as a dealer. These instruments include positions in municipal bonds, bonds backed by the U.S. government, agency

and corporate bonds, certain mortgage-backed securities, securities issued by the U.S. Treasury, money markets, and certain collateralized CMOs. The activities and instruments within the fixed income portfolio create exposures to interest rate and credit spread risks.
Foreign exchange includes foreign currency spots, forwards and options. We enter into contracts for these types of instruments primarily to accommodate the needs of clients. These activities result in exposures to foreign currency risk.
Interest rate derivatives include interest rate swaps, caps and floors, which are transacted primarily to accommodate the needs of commercial loan clients. In addition, we enter into interest rate derivatives to offset or mitigate the interest rate risk related to the client positions. The activities within this portfolio create exposures to interest rate risk.
Credit derivatives include credit default swaps, which are used to mitigate loan portfolio credit risk, and credit default swap indexes, which are used to manage the credit risk exposure associated with anticipated sales of certain commercial real estate loans. The transactions within the credit derivatives portfolio result in exposure to credit risk.

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

We use a VaR simulation model to measure the potential adverse effect of changes in interest rates, foreign exchange rates, equity prices, and credit spreads on the fair value of our covered positions. Historical scenarios are customized for specific covered positions, and numerous risk factors are incorporated in the calculation. VaR is calculated using daily observations over a one-year time horizon, and approximates a 95% confidence level. Statistically, this means that we would expect to incur losses greater than VaR, on average, five out of 100 trading days, or three to four times each quarter. We also calculate VaR and stressed VaR at a 99% confidence level. Two years of historical data were used in the simulation during 2012. Beginning in February 2013, the simulation uses historical data from the previous year, as we believe it more appropriately reflects the current market conditions and the risks associated with our portfolios. This change resulted in a decrease in VaR results of approximately 2% at the 95% confidence level and 15% at the 99% confidence level. We also utilize factors to estimate the exposures that contain optionality features, such as options and cancellable provisions.

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

MRM backtests our VaR model on a daily basis to evaluate its predictive power. The test compares VaR model results at the 99% confidence level to observed daily profit and loss. Results of backtesting are provided to the Market Risk Committee. Backtesting exceptions occur when trading losses exceed VaR. Actual losses did not exceed daily trading VaR on any day during the quarters ended June 30, 2013 and 2012.

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

impact of counterparty risk and our own credit spreads on derivatives.

The aggregate VaR at the 99% confidence level for all covered positions was $1.7 million at June 30, 2013, and $1.9 million at June 30, 2012. The decrease in aggregate VaR was primarily due to reduced exposures in interest rate and credit derivatives as well as the change from using two years of historical data to one year for the VaR simulation, which was partially offset by an increase in the fixed income VaR. Figure 30 summarizes our VaR at the 99% confidence level for significant portfolios of covered positions for the second quarter of 2013 and 2012.

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Figure 30. VaR for Significant Portfolios of Covered Positions

	2013				
	Three months ended June 30,				**Three months e**
in millions	**High**	**Low**	**Mean**	**June 30,**	**High**
Trading account assets:					
Fixed income	**1.2**	**0.3**	**0.6**	**0.6**	1.0
Derivatives:					
Interest rate	**0.3**	**0.2**	**0.2**	**0.3**	0.3
Foreign exchange	**0.1**				0.1
Credit	**1.1**	**0.2**	**0.5**	**0.8**	1.5

Stressed VaR is calculated using our general VaR results at the 99% confidence level and applying certain assumptions. The aggregate stressed VaR for all covered positions was $5.2 million at June 30, 2013. Figure 31 summarizes our stressed VaR for significant portfolios of covered positions for the second quarter of 2013 as used for market risk capital charge calculation purposes. Stressed VaR was not calculated for market risk regulatory capital purposes during 2012.

Figure 31. Stressed VaR for Significant Portfolios of Covered Positions

	2013			
	Three months ended June 30,			
in millions	**High**	**Low**	**Mean**	**June 30,**
Trading account assets:				
Fixed income	**3.7**	**1.0**	**1.9**	**1.8**
Derivatives:				
Interest rate	**0.9**	**0.7**	**0.7**	**0.8**
Foreign exchange	**0.2**		**0.1**	
Credit	**3.2**	**0.7**	**1.6**	**2.4**

Internal capital adequacy assessment. Market risk is a component of our internal capital adequacy assessment. Our risk-weighted assets include a market risk equivalent asset position, which consists of a VaR component, stressed VaR component, and a specific risk add-on. Specific risk is the price risk of individual financial instruments, which is not accounted for by changes in broad market risk factors. Specific risk is measured through a standardized approach for positions where the VaR model does not capture specific risk. Specific risk calculations are run quarterly by MRM, and approved by the Chief Market Risk Officer. The VaR, stressed VaR, and specific risk components are added

together to arrive at a total market risk equivalent assets calculation.

Nontrading market risk

Most of our market risk is derived from interest rate fluctuations. Interest rate risk, which is inherent in the banking industry, is measured by the potential for fluctuations in net interest income and the EVE. Such fluctuations may result from changes in interest rates and differences in the repricing and maturity characteristics of interest-earning assets and interest-bearing liabilities. We manage the exposure to changes in net interest income and the EVE in accordance with our risk appetite, and within Board approved policy limits.

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

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

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

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

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

Oversight of nontrading market risk is governed by the Risk Committee of our Board, the ERM Committee and the ALCO. These committees regularly review various reports, including interest rate risk summaries, trends, peer comparisons, variance analyses, projections, and sensitivity analyses. The reviews generate a discussion of positions, trends and directives on interest rate risk and inform a number of our decisions. Guidance for the oversight and management of interest rate risk is provided through the asset/liability management policy, which is governed by the ALCO. We communicate with individuals within and outside of the company on a daily basis to discuss emerging issues.

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

We measure the amount of net interest income at risk by simulating the change in net interest income that would occur if the federal funds target rate were to gradually increase or decrease over the next twelve months, and term rates were to move in a similar fashion. Our standard rate scenarios encompass a gradual increase or decrease of 200 basis points, but due to the low interest rate environment, a gradual decrease of 25 basis points over two months with no change over the following ten months is applied. After calculating the amount of net interest income at risk to interest rate changes, we compare that amount with the base case of an unchanged interest rate environment. We also perform regular stress tests and sensitivities on the model inputs that could materially change the resulting risk assessments. One set of stress tests and sensitivities assesses the effect of interest rate inputs on simulated exposures. Assessments are performed using different shapes of the yield curve, including a sustained flat yield curve, an inverted slope yield curve, changes in credit spreads, an immediate parallel change in market interest rates, and changes in the relationship of money market interest rates. Another set of stress tests and sensitivities assesses the effect of loan and deposit assumptions and assumed discretionary strategies on simulated exposures. Assessments are performed on changes to the following assumptions: the pricing of deposits without contractual maturities; changes in lending spreads; prepayments on loans and securities; other loan and deposit balance shifts; investment, funding and hedging activities; and liquidity and capital management strategies.

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

unanticipated or unknown events.

Figure 32 presents the results of the simulation analysis at June 30, 2013, and 2012. At June 30, 2013, our simulated exposure to changes in interest rates was moderately asset sensitive. Policy limits for risk management require the development of remediation plans to maintain residual risk within tolerance if simulation modeling demonstrates that a gradual increase or decrease in short-term interest rates over the next twelve months would adversely affect net interest income over the same period by more than 4%. As shown in Figure 32, we are operating within these limits.

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Figure 32. Simulated Change in Net Interest Income

June 30, 2013

Basis point change assumption (short-term rates)	**-25**	**+200**
ALCO policy limits	**-4.00 %**	**-4.00 %**
Interest rate risk assessment	**-1.12 %**	**2.30 %**

June 30, 2012

Basis point change assumption (short-term rates)	-25	+200
ALCO policy limits	-4.00 %	-4.00 %
Interest rate risk assessment	-1.05 %	+2.01 %

The results of additional sensitivity analysis of alternate interest rate paths and loan and deposit behavior assumptions indicates that net interest income could increase or decrease from the base simulation results presented in Figure 32. Net interest income is highly dependent on the timing, magnitude, frequency, and path of interest rate increases and assumption inputs for deposit repricing relationships, lending spreads, and the balance behavior of transaction accounts. The unprecedented low level of interest rates increases the uncertainty when modeling future deposit balances and repricing behavior. Our sensitivity testing of both assumptions and variables suggests a range of 2-3% in our simulated exposure to a gradual 200 basis point increase in rates is reasonable at this time. Increases in both short term and intermediate term rates are expected to benefit net interest income over time.

To support continued progress toward maximum employment and price stability, the FOMC expects that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens, and in particular expects to keep the federal funds rate at exceptionally low levels. Key will continue to monitor balance sheet flows and expects the benefit to rising rates to increase prior to any increase in the federal funds rate. Our current interest rate risk position could fluctuate to higher or lower levels of risk depending on the competitive environment and client behavior that may affect the actual volume, mix, maturity, and repricing characteristics of loan and deposit flows. As changes occur to both the configuration of the balance sheet and the outlook for the economy, management proactively evaluates hedging opportunities that may change our interest rate risk profile.

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

Economic value of equity modeling. EVE complements net interest income simulation analysis as it estimates risk exposure beyond twelve-, twenty-four and thirty-six month horizons. EVE modeling measures the extent to which the economic values of assets, liabilities and off-balance sheet instruments may change in response to fluctuations in interest rates. EVE is calculated by subjecting the balance sheet to an immediate 200 basis point increase or decrease

in interest rates, measuring the resulting change in the values of assets, liabilities and off-balance sheet instruments, and comparing those amounts with the base case of an unchanged interest rate environment. Because the calculation of EVE under an immediate 200 basis point decrease in interest rates in the current low rate environment results in certain interest rates declining to zero and a less than 200 basis point decrease in certain yield curve term points, we have modified the standard declining rate scenario to an immediate 100 basis point decrease. This analysis is highly dependent upon assumptions applied to assets and liabilities with non-contractual maturities. Those assumptions are based on historical behaviors, as well as our expectations. We develop remediation plans that would maintain residual risk within tolerance if this analysis indicates that our EVE will decrease by more than 15% in response to an immediate increase or decrease in interest rates. We are operating within these guidelines.

Management of interest rate exposure. We use the results of our various interest rate risk analyses to formulate A/LM strategies to achieve the desired risk profile while managing to our objectives for capital adequacy and liquidity risk exposures. Specifically, we manage interest rate risk positions by purchasing securities, issuing term debt with floating or fixed interest rates, and using derivatives predominantly in the form of interest rate swaps, which modify the interest rate characteristics of certain assets and liabilities.

Figure 33 shows all swap positions that we hold for A/LM purposes. These positions are used to convert the contractual interest rate index of agreed-upon amounts of assets and liabilities (i.e., notional amounts) to another interest rate index. For example, fixed-rate debt is converted to a floating rate through a receive fixed/pay variable interest rate swap. The volume, maturity and mix of portfolio swaps change frequently as we adjust our broader A/LM objectives and the balance sheet positions to be hedged. For more information about how we use interest rate swaps to manage our risk profile, see Note 7 (Derivatives and Hedging Activities).

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Figure 33. Portfolio Swaps by Interest Rate Risk Management Strategy

	June 30, 2013					June 30, 2012	
			Weighted-Average				
ollars in illions	Notional Amount	Fair Value	Maturity (Years)	Receive Rate	Pay Rate	Notional Amount	Fair Value
eceive xed/pay ariable onventional /LM [a]	$ **11,175**	$ **(11)**	**2.3**	**.7 %**	**.2 %**	$ 11,715	$ 58
eceive xed/pay ariable onventional ebt	**4,160**	**269**	**4.5**	**3.3**	**.3**	3,840	465
ay xed/receive ariable onventional ebt	**224**	**(8)**	**10.4**	**.3**	**2.9**	312	(30)
otal ortfolio vaps	$ **15,559**	$ **250** [b]	**3.0**	**1.4 %**	**.3 %**	$ 15,867	$ 493 [b

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

(b) Excludes accrued interest of $64 million and $62 million for June 30, 2013, and 2012, respectively.

Liquidity risk management

We define liquidity as the ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations, and fund asset growth and new business transactions at a reasonable cost, in a timely manner and without adverse consequences. Liquidity management involves maintaining sufficient and diverse sources of funding to accommodate planned, as well as unanticipated, changes in assets and liabilities under both normal and adverse conditions.

Governance structure

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

Oversight of the liquidity risk management process is governed by the Board s Risk Committee, the KeyBank Board of Directors, the ERM Committee and the ALCO. These groups regularly review various liquidity reports, including liquidity and funding summaries, liquidity trends, peer comparisons, variance analyses, liquidity projections, hypothetical funding erosion stress tests and goal tracking reports. The reviews generate a discussion of positions, trends and directives on liquidity risk and shape a number of our decisions. When liquidity pressure is elevated, positions are monitored more closely and reporting is more intensive. We communicate with individuals within and outside of the company on a daily basis to discuss emerging issues.

Factors affecting liquidity

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

Our credit ratings at June 30, 2013, are shown in Figure 34. We believe that these credit ratings, under normal conditions in the capital markets, will enable the parent company or KeyBank to issue fixed income securities to investors.

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Figure 34. Credit Ratings

June 30, 2013	Short-Term Borrowings	Senior Long-Term Debt	Subordinated Long-Term Debt	Capital Securities	Series A Preferred Stock
KEYCORP (THE PARENT COMPANY)					
Standard & Poor s	A-2	BBB+	BBB	BBB-	BBB-
Moody s	P-2	Baa1	Baa2	Baa3	Ba1
Fitch	F1	A-	BBB+	BB+	BB
DBRS	R-2(high)	BBB(high)	BBB	BBB	BB(low)
KEYBANK					
Standard & Poor s	A-2	A-	BBB+	N/A	N/A
Moody s	P-2	A3	Baa1	N/A	N/A
Fitch	F1	A-	BBB+	N/A	N/A
DBRS	R-1(low)	A(low)	BBB(high)	N/A	N/A

Managing liquidity risk

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

We maintain a Contingency Funding Plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for managing liquidity through a problem period. As part of the plan, we maintain a liquidity reserve through balances in our liquid asset portfolio. During a problem period, that reserve could be used as a source of funding to provide time to develop and execute a longer-term strategy. The liquid asset portfolio at June 30, 2013, totaled $9.9 billion, consisting of $5.9 billion of unpledged securities, $1.2 billion of securities available for secured funding at the Federal Home Loan Bank of Cincinnati, and $2.8 billion of net balances of federal funds sold and balances in our Federal Reserve account. The liquid asset portfolio can fluctuate due to excess liquidity, heightened risk, or prefunding of expected outflows, such as debt maturities. Additionally, as of June 30, 2013, our unused borrowing capacity secured by loan collateral was $15.0 billion at the Federal Reserve Bank of Cleveland and $2.9 billion at the Federal Home Loan Bank of Cincinnati.

Long-term liquidity strategy

Our long-term liquidity strategy is to be predominantly funded by core deposits. However, we may use wholesale funds to sustain an adequate liquid asset portfolio, meet daily cash demands, and allow management flexibility to execute business initiatives. Key s client-based relationship strategy provides for a strong core deposit base which, in conjunction with intermediate and long-term wholesale funds managed to a diversified maturity structure and investor base, supports our liquidity risk management strategy. We use the loan to deposit ratio as a metric to monitor these strategies. Our target loan to deposit ratio is 90-100% (at June 30, 2013, our loan to deposit ratio was 84%), which we calculate as total loans, loans held for sale, and nonsecuritized discontinued loans divided by domestic deposits.

Sources of liquidity

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

Liquidity programs

We have several liquidity programs, which are described in Note 15 (Long-Term Debt) on page 184 of our 2012 Form 10-K, that enable the parent company and KeyBank to raise funds in the public and private markets when the capital markets are

functioning normally. The proceeds from most of these programs can be used for general corporate purposes, including acquisitions. Each of the programs is replaced or renewed as needed. There are no restrictive financial covenants in any of these programs.

KeyBank maintains a $20 billion Global Bank Note Program that allows KeyBank to issue notes, domestically and abroad, with original maturities of seven days or more for senior notes or five years or more for subordinated notes. These notes may be denominated in U.S. dollars or in foreign currencies. Each note will be the sole obligation of KeyBank.

In the first half of 2013, Key s outstanding note balance decreased by $181 million. Key also had maturities of $26 million in Euro medium-term notes and repayments of $250 million in Federal Home Loan Bank advances. KeyCorp had maturities of $750 million in medium-term notes.

Liquidity for KeyCorp

The parent company has sufficient liquidity when it can service its debt; support customary corporate operations and activities (including acquisitions); support occasional guarantees of subsidiaries obligations in transactions with third parties at a reasonable cost, in a timely manner, and without adverse consequences; and pay dividends to shareholders.

We use three primary measures to assess parent company liquidity: net cash position, a cash coverage metric, and the liquidity gap. The net cash position measures the ability to fund debt maturing in 24 months or less with existing liquid assets. The cash coverage metric measures the ability to meet all projected obligations. The liquidity gap represents the difference between projected liquid assets and anticipated financial obligations over several time horizons. We generally issue term debt to manage our liquidity position within targeted ranges. The parent company generally maintains cash and short-term investments in an amount sufficient to meet projected debt maturities over the next 24 months. At June 30, 2013, KeyCorp held $1.1 billion in short-term investments, which we projected to be sufficient to meet our projected obligations, including the repayment of our maturing debt obligations for the periods prescribed by our policies.

Typically, the parent company meets its liquidity requirements through regular dividends from KeyBank. Federal banking law limits the amount of capital distributions that a bank can make to its holding company without prior regulatory approval. A national bank s dividend-paying capacity is affected by several factors, including net profits (as defined by statute) for the two previous calendar years and for the current year, up to the date of dividend declaration. During the first half of 2013, KeyBank and nonbank subsidiaries did not make any dividend payments to the parent. The parent did not make any capital infusions to KeyBank during the first half of 2013. As of June 30, 2013, KeyBank has capacity to pay $210 million in dividends to KeyCorp without prior regulatory approval.

Our liquidity position and recent activity

Over the past twelve months our liquid asset portfolio, which includes overnight and short-term investments, as well as unencumbered, high quality liquid securities held as protection against a range of potential liquidity stress scenarios, has decreased as a result of debt maturities, trust preferred securities redemptions, and net customer loan and deposit flows. However, the liquid asset portfolio still continues to exceed the amount we estimate would be necessary to manage through an adverse liquidity event by providing sufficient time to develop and execute a longer term solution. The issuance of $1 billion of Senior Bank Notes in January 2013 provided additional liquidity to support normal business flows and maintain our liquid asset portfolio within target levels.

From time to time, KeyCorp or KeyBank may seek to retire, repurchase or exchange outstanding debt, capital securities, preferred shares or Common Shares through cash purchase, privately negotiated transactions or other means. We periodically repurchase Common Shares in the open market or through privately negotiated transactions under our 2013 capital plan authorized by our Board and not objected to by the Federal Reserve. Additional information on repurchases of Common Shares by KeyCorp is included in Part II, Item 2. Unregistered Sales of Equity Securities or Use of Proceeds of this report. Such transactions depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions, regulatory requirements and other factors. The amounts involved may be material, individually or collectively.

We generate cash flows from operations and from investing and financing activities. We have approximately $218 million of cash and cash equivalents and short-term investments in international tax jurisdictions as of June 30, 2013. As we consider alternative long-term strategic and liquidity plans, opportunities to repatriate these amounts would result in approximately

$20 million in taxes to be paid. If we were to cease operations in all international tax jurisdictions, the total amount of taxes to be paid would increase to approximately $37 million. Accordingly, we have included the total amount as a deferred tax liability at June 30, 2013.

The consolidated statements of cash flows summarize our sources and uses of cash by type of activity for the six month periods ended June 30, 2013, and 2012.

Credit risk management

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

Credit policy, approval and evaluation

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

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

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

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

We maintain an active concentration management program to encourage diversification in our credit portfolios. For individual obligors, we employ a sliding scale of exposure, known as hold limits, which is dictated by the strength of the borrower. Our legal lending limit is approximately $1.6 billion for any individual borrower. However, internal hold limits generally restrict the largest exposures to less than 20% of that amount. As of June 30, 2013, we had five client relationships with loan commitments net of credit default swaps of more than $200 million. The average amount outstanding on these five individual net obligor commitments was $41 million at June 30, 2013. In general, our philosophy is to maintain a diverse portfolio with regard to credit exposures.

We actively manage the overall loan portfolio in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate credit risk. We utilize credit default swaps to transfer a portion of the credit risk associated with a particular extension of credit to a third party. At June 30, 2013, we used credit default swaps with a notional amount of $672 million to manage the credit risk associated with specific commercial lending obligations. We may also sell credit derivatives primarily single name credit default swaps to offset our purchased credit default swap position prior to maturity. At June 30, 2013, we had sold credit default swaps outstanding with a total notional of $77 million.

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

We may also manage the loan portfolio using portfolio swaps and bulk purchases and sales. Our overarching goal is to manage the loan portfolio within a specified range of asset quality.

Allowance for loan and lease losses

At June 30, 2013, the ALLL was $876 million, or 1.65% of loans, compared to $888 million, or 1.79%, at June 30, 2012. The allowance includes $34 million that was specifically allocated for impaired loans of $464 million at June 30, 2013, compared to $48 million that was allocated for impaired loans of $411 million one year ago. For more information about impaired loans, see Note 4 (Asset Quality). At June 30, 2013, the allowance for loan and lease losses was 134.36% of nonperforming loans, compared to 135.16% at June 30, 2012.

Selected asset quality statistics for each of the past five quarters are presented in Figure 35. The factors that drive these statistics are discussed in the remainder of this section.

Figure 35. Selected Asset Quality Statistics from Continuing Operations

	2013		2012		
dollars in millions	**Second**	**First**	**Fourth**	**Third**	**Second**
Net loan charge-offs	**$ 45**	$ 49	$ 58	$ 109	$ 77
Net loan charge-offs to average loans	**.34 %**	.38 %	.44 %	.86 %	.63 %
Allowance for loan and lease losses to annualized net loan charge-offs	**485.33**	449.37	384.85	204.78	286.74
Allowance for loan and lease losses	**$ 876**	$ 893	$ 888	$ 888	$ 888
Allowance for credit losses [(a)]	**913**	925	917	931	939
Allowance for loan and lease losses to period-end loans	**1.65 %**	1.70 %	1.68 %	1.73 %	1.79 %
Allowance for credit losses to period-end loans	**1.72**	1.76	1.74	1.81	1.89
Allowance for loan and lease losses to nonperforming loans	**134.36**	137.38	131.75	135.99	135.16
Allowance for credit losses to nonperforming loans	**140.03**	142.31	136.05	142.57	142.92
Nonperforming loans at period end [(b)]	**$ 652**	$ 650	$ 674	$ 653	$ 657
Nonperforming assets at period end	**693**	705	735	718	751
	1.23 %	1.24 %	1.28 %	1.27 %	1.32 %

Nonperforming loans to period-end portfolio loans					
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	**1.30**	1.34	1.39	1.39	1.51

(a) Includes the allowance for loan and lease losses plus the liability for credit losses on lending-related unfunded commitments.

(b) June 30, 2013, March 31, 2013, December 31, 2012, and September 30, 2012 amounts exclude $19 million, $22 million, $23 million, and $25 million, respectively, of PCI loans acquired in July 2012.

We estimate the appropriate level of the ALLL on at least a quarterly basis. The methodology used is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses on page 102 of our 2012 10-K. Briefly, we apply expected loss rates to existing loans with similar risk characteristics and exercise judgment to assess the impact of factors such as changes in economic conditions, 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 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 expected 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.

As shown in Figure 36, our ALLL decreased by $12 million, or 1%, during the past twelve months. This contraction was associated with the improvement in credit quality of the loan portfolio, which has trended more favorably over the past twenty four months. The quality of new loan originations and decreasing NPLs and net charge-offs has resulted in a reduction in our general allowance. Our delinquency trends showed continued improvement in 2012 and 2013. We attribute this improvement to improving economic activity, more favorable conditions in the housing market, and continued run off in our exit loan portfolio. Our liability for credit losses on lending-related commitments decreased by $14 million to $37 million at June 30, 2013, compared to the same period one year ago. When combined with our allowance for loan and lease losses, our total allowance for credit losses represented 1.72% of loans at the end of the second quarter of 2013, compared to 1.89% at the end of the second quarter of 2012. We expect the allowance to decrease as a percent of total loans during the remainder of 2013 as a result of the continued improvement in credit quality that is anticipated.

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Figure 36. Allocation of the Allowance for Loan and Lease Losses

June 30, 2013			December 31, 2012			June 30, 2012	
Amount	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Amount	Percent of Allowance to Total Allowance	Percent of Loan Type to Total Loans	Amount	Percent of Allowance to Total Allowance
352	**40.2 %**	**44.6 %**	$ 327	36.8 %	44.0 %	$ 304	34.2 %
182	**20.8**	**14.1**	198	22.3	14.6	250	28.1
34	**3.9**	**2.0**	41	4.6	1.9	55	6.2
216	**24.7**	**16.1**	239	26.9	16.5	305	34.3
61	**6.9**	**9.0**	55	6.2	9.3	68	7.7
629	**71.8**	**69.7**	621	69.9	69.8	677	76.2
33	**3.8**	**4.1**	30	3.4	4.1	26	2.9
94	**10.7**	**19.2**	105	11.8	18.6	80	9.0
16	**1.8**	**.7**	25	2.8	.8	24	2.7
110	**12.5**	**19.9**	130	14.6	19.4	104	11.7
33	**3.8**	**2.7**	38	4.3	2.5	34	3.9
33	**3.8**	**1.3**	26	2.9	1.4		

35	**4.0**	**2.2**		39	4.4	2.6	44	5.0
3	**.3**	**.1**		4	.5	.2	3	.3
38	**4.3**	**2.3**		43	4.9	2.8	47	5.3
247	**28.2**	**30.3**		267	30.1	30.2	211	23.8
876	**100.0 %**	**100.0 %**	$	888	100.0 %	100.0 %	$ 888	100.0 %

(a) Excludes allocations of the allowance for loan and lease losses in the amount of $41 million, $55 million, and $79 million at June 30, 2013, December 31, 2012, and June 30, 2012, respectively, related to the discontinued operations of the education lending business.

Our provision (credit) for loan and lease losses was $28 million for second quarter of 2013, compared to $21 million for the year-ago quarter. Our net loan charge-offs were $45 million for the second quarter 2013 compared to $77 million for the second quarter of 2012. The increase in our provision is primarily due to the acquisition of the credit card portfolio during the third quarter of 2012. Additionally, we continue to reduce our exit loans and leases, as well as our exposure in our higher-risk businesses, including the residential properties portion of our construction loan portfolio, Marine/RV financing, and other selected leasing portfolios through the sale of certain loans, payments from borrowers or net charge-offs.

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Net loan charge-offs

Net loan charge-offs for the second quarter of 2013 totaled $45 million, or .34% of average loans, compared to net loan charge-offs of $77 million, or .63% for the same period last year. Figure 37 shows the trend in our net loan charge-offs by loan type, while the composition of loan charge-offs and recoveries by type of loan is presented in Figure 38.

Over the past twelve months, net loan charge-offs decreased $32 million. This decrease is attributable to improvement in asset quality statistics as shown in Figure 38. As shown in Figure 40, our exit loan portfolio contributed a total of $10 million in net loan charge-offs for the second quarter of 2013. Net loan recoveries for the first quarter of 2013 in our exit loan portfolio were $1 million. The increase in net loan charge-offs in our exit loan portfolio were primarily driven by higher levels of net loan charge-offs in the consumer exit loan portfolios partially offset by recoveries in the commercial exit loan portfolio.

Figure 37. Net Loan Charge-offs from Continuing Operations [(a)]

	2013		2012		
ollars in illions	**Second**	**First**	**Fourth**	**Third**	**Second**
ommercial, nancial and gricultural	**$ 8**	$ 2	$ (8)	$ 7	$ 3
eal estate ommercial ortgage	**(2)**	8	28	21	9
eal estate onstruction	**1**	(7)	3	2	4
ommercial ase nancing	**(2)**	2	3	(8)	10
otal ommercial ans	**5**	5	26	22	26
ome equity ey ommunity ank	**14**	16	(18)	62	21
ome equity ther	**5**	4	11	5	7
redit cards	**6**	8	9	2	
arine	**5**	3	14	6	7
ther	**10**	13	16	12	16

otal onsumer ans		**40**		44		32		87		51
otal net an arge-offs	**$**	**45**	$	49	$	58	$	109	$	77
et loan arge-offs average ans		**.34 %**		.38 %		.44 %		.86 %		.63 %
et loan arge-offs om scontinued perations lucation nding usiness	**$**	**7**	$	12	$	15	$	12	$	12

(a) Credit amounts indicates recoveries exceeded charge-offs.

Figure 38. Summary of Loan and Lease Loss Experience from Continuing Operations

dollars 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
Average loans outstanding	**$ 52,696**	$ 49,446	**$ 52,661**	$ 49,438
Allowance for loan and lease losses at beginning of period	**$ 893**	$ 944	**$ 888**	$ 1,004
Charge-offs:				
Commercial, financial and agricultural [(a)]	**15**	23	**29**	49
Real estate commercial mortgage	**3**	23	**16**	46
Real estate construction	**1**	5	**2**	16
Total commercial real estate loans [(b)]	**4**	28	**18**	62
Commercial lease financing	**2**	16	**8**	20
Total commercial loans	**21**	67	**55**	131
Real estate residential mortgage	**4**	7	**10**	13
Home equity:				
Key Community Bank	**18**	23	**36**	48
Other	**6**	9	**12**	17
Total home equity loans	**24**	32	**48**	65
Consumer other Key Community Bank	**7**	10	**16**	20
Credit cards	**8**		**16**	
Consumer other:				
Marine	**9**	13	**17**	30
Other	**1**	2	**2**	4
Total consumer other	**10**	15	**19**	34
Total consumer loans	**53**	64	**109**	132
Total loans charged off	**74**	131	**164**	263

Recoveries:								
Commercial, financial and agricultural [(a)]		**7**		20		**19**		31
Real estate commercial mortgage		**5**		14		**10**		16
Real estate construction				1		**8**		2
Total commercial real estate loans [(b)]		**5**		15		**18**		18
Commercial lease financing		**4**		6		**8**		10
Total commercial loans		**16**		41		**45**		59
Real estate residential mortgage				1				2
Home equity:								
Key Community Bank		**4**		2		**6**		4
Other		**1**		2		**3**		3
Total home equity loans		**5**		4		**9**		7
Consumer other Key Community Bank		**2**		2		**4**		3
Credit cards		**2**				**2**		
Consumer other:								
Marine		**4**		6		**9**		13
Other						**1**		1
Total consumer other		**4**		6		**10**		14
Total consumer loans		**13**		13		**25**		26
Total recoveries		**29**		54		**70**		85
Net loans and leases charged off		**(45)**		(77)		**(94)**		(178)
Provision (credit) for loan and lease losses		**28**		21		**83**		63
Foreign currency translation adjustment						**(1)**		(1)
Allowance for loan and lease losses at end of period	**$**	**876**	$	888	**$**	**876**	$	888
Liability for credit losses on lending-related commitments at beginning of period	**$**	**32**	$	45	**$**	**29**	$	45
Provision (credit) for losses on lending-related		**5**		6		**8**		6

commitments

Liability for credit losses on lending-related commitments at end of period [c]	**$**	**37**		$	51		**$**	**37**		$	51
Total allowance for credit losses at end of period	**$**	**913**		$	939		**$**	**913**		$	939
Net loan charge-offs to average loans		**.34**	**%**		.63	%		**.36**	**%**		.72 %
Allowance for loan and lease losses to annualized net loan charge-offs		**485.33**			286.74			**462.13**			248.08
Allowance for loan and lease losses to period-end loans		**1.65**			1.79			**1.65**			1.79
Allowance for credit losses to period-end loans		**1.72**			1.89			**1.72**			1.89
Allowance for loan and lease losses to nonperforming loans		**134.36**			135.16			**134.36**			135.16
Allowance for credit losses to nonperforming loans		**140.03**			142.92			**140.03**			142.92
Discontinued operations education lending business:											
Charge-offs	**$**	**12**		$	16		**$**	**28**		$	39
Recoveries		**5**			4			**9**			8
Net loan and lease charge-offs	**$**	**(7)**		$	(12)		**$**	**(19)**		$	(31)

(a) See Figure 19 and the accompanying discussion in the Loans and leases held for sale section for more information related to our commercial, financial and agricultural portfolio.

(b) See Figure 20 and the accompanying discussion in the Loans and leases held for sale section for more information related to our commercial real estate portfolio.

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

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Nonperforming assets

Figure 39 shows the composition of our nonperforming assets. These assets totaled $693 million at June 30, 2013, and represented 1.30% of portfolio loans, OREO and other nonperforming assets, compared to $735 million, or 1.39%, at December 31, 2012, and $751 million, or 1.51%, at June 30, 2012. See Note 1 under the headings Nonperforming Loans, Impaired Loans, and Allowance for Loan and Lease Losses beginning on page 120 of our 2012 Form 10-K for a summary of our nonaccrual and charge-off policies.

Figure 39. Summary of Nonperforming Assets and Past Due Loans from Continuing Operations

dollars in millions	**June 30, 2013**	March 31, 2013	December 31, 2012	September 30, 2012	June 30, 2012
Commercial, financial and agricultural	**$ 146**	$ 142	$ 99	$ 132	$ 141
Real estate commercial mortgage	**106**	114	120	134	172
Real estate construction	**26**	27	56	53	68
Total commercial real estate loans	**132**	141	176	187	240
Commercial lease financing	**14**	12	16	18	18
Total commercial loans	**292**	295	291	337	399
Real estate residential mortgage [(a)]	**94**	96	103	83	78
Home equity:					
Key Community Bank	**205**	199	210	171	141
Other	**16**	18	21	18	17
Total home equity loans [(a)]	**221**	217	231	189	158
	3	3	2	3	2

Consumer other Key Community Bank					
Credit card	**11**	13	11	8	
Consumer other:					
Marine	**30**	25	34	31	19
Other	**1**	1	2	2	1
Total consumer other	**31**	26	36	33	20
Total consumer loans	**360**	355	383	316	258
Total nonperforming loans	**652**	650	674	653	657
Nonperforming loans held for sale	**14**	23	25	19	38
OREO	**18**	21	22	29	28
Other nonperforming assets	**9**	11	14	17	28
Total nonperforming assets [(b)]	**$ 693**	$ 705	$ 735	$ 718	$ 751
Accruing loans past due 90 days or more	**$ 80**	$ 83	$ 78	$ 89	$ 131
Accruing loans past due 30 through 89 days	**251**	368	424	354	362
Restructured loans accruing and nonaccruing [(c)]	**311**	294	320	323	274
Restructured loans included in nonperforming loans [(c)]	**195**	178	249	217	163
Nonperforming assets from discontinued	**19**	15	20	22	18

operations education lending business					
Nonperforming loans to period-end portfolio loans	**1.23 %**	1.24 %	1.28 %	1.27 %	1.32 %
Nonperforming assets to period-end portfolio loans plus OREO and other nonperforming assets	**1.30**	1.34	1.39	1.39	1.51

(a) All of the increase in real estate residential mortgage and $26 million of the increase in total home equity loans from September 30, 2012 to December 31, 2012 was related to regulatory guidance issued in the second and third quarters of 2012.

(b) June 30, 2013, March 31, 2013, December 31, 2012, and September 30, 2012 amounts exclude $19 million, $22 million, $23 million, and $25 million, respectively, of PCI loans acquired in July 2012.

(c) Restructured loans (i.e., troubled debt restructurings) are those for which Key, for reasons related to a borrower s financial difficulties, grants a concession to the borrower that it would not otherwise consider. These concessions are made to improve the collectability of the loan and generally take the form of a reduction of the interest rate, extension of the maturity date or reduction in the principal balance. The majority of the increase in restructured loans included in nonperforming loans during the second half of 2012 was a result of updated regulatory guidance in the third quarter of 2012.

As shown in Figure 39, nonperforming assets decreased during the second quarter of 2013. Most of the reduction came from nonperforming loans in our Real estate commercial mortgage and nonperforming loans held for sale portfolios, partially offset by an increase in nonperforming loans in our Home equity Key Community Bank portfolio. As shown in Figure 40, our exit loan portfolio accounted for $63 million, or 9%, of our total nonperforming assets at June 30, 2013, compared to $66 million, or 9%, at March 31, 2013.

At June 30, 2013, the carrying amount of our commercial nonperforming loans outstanding represented 63% of their contractual amount owed, total nonperforming loans outstanding represented 76% of their 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 nonperforming loans.

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Figure 40 shows the composition of our exit loan portfolio at June 30, 2013 and March 31, 2013, the net charge-offs recorded on this portfolio for the second quarter of 2013 and the first quarter of 2013, and the nonperforming status of these loans at June 30, 2013 and March 31, 2013. The exit loan portfolio represented 5% of total loans and loans held for sale at June 30, 2013. Additional information about loan sales is included in this report under the heading Loans held for sale and Loan sales.

Figure 40. Exit Loan Portfolio from Continuing Operations

	Balance Outstanding		Change 6-30-13 vs.	Net Loan Charge-offs		Balance on Nonperforming Status	
	6-30-13	**3-31-13**	**3-31-13**	**6-30-13 (c)**	**3-31-13 (c)**	**6-30-13**	
er	**$ 26**	$ 29	$ (3)	**$ 1**		**$ 8**	$
l	**28**	29	(1)		$ (3)	**7**	
al)	**931**	966	(35)	**(2)**	(5)	**1**	
l	**985**	1,024	(39)	**(1)**	(8)	**16**	
ty	**375**	401	(26)	**5**	4	**16**	
	1,160	1,254	(94)	**5**	3	**31**	
her	**69**	79	(10)	**1**			
	1,604	1,734	(130)	**11**	7	**47**	
an	**$ 2,589**	$ 2,758	$ (169)	**$ 10**	$ (1)	**$ 63**	$
ed	**$ 4,992**	$ 5,086	$ (94)	**$ 7**	$ 12	**$ 19**	$

ot

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

(b) Includes loans in Key s education loan securitization trusts.

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

The types of activity that caused the change in our nonperforming loans during each of the last five quarters are summarized in Figure 41. Loans placed on nonaccrual status decreased $190 million during second quarter of 2013 compared to the second quarter 2012, as market liquidity continued to improve.

Figure 41. Summary of Changes in Nonperforming Loans from Continuing Operations

	2013		2012		
in millions	**Second**	**First**	**Fourth**	**Third**	**Second**
Balance at beginning of period	**$ 650**	$ 674	$ 653	$ 657	$ 666
Loans placed on nonaccrual status	**160**	278	288	276	350
Charge-offs	**(74)**	(91)	(104)	(141)	(131)
Loans sold	**(5)**	(42)	(44)	(43)	(49)
Payments	**(36)**	(83)	(78)	(74)	(110)
Transfers to OREO	**(7)**	(7)	(7)	(10)	(6)
Transfers to nonperforming loans held for sale			(8)		(16)
Transfers to other nonperforming assets			(1)		(14)
Loans returned to accrual status	**(36)**	(79)	(25)	(12)	(33)
	$ 652	$ 650	$ 674	$ 653	$ 657

Balance at end of period [a]

(a) June 30, 2013, March 31, 2013, December 31, 2012, and September 30, 2012 amounts exclude $19 million, $22 million, $23 million, and $25 million, respectively, of PCI loans acquired in July 2012.

The types of activity that caused the change in our nonperforming loans held for sale during each of the last five quarters are summarized in Figure 42.

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

	2013		2012		
in millions	**Second**	**First**	**Fourth**	**Third**	**Second**
Balance at beginning of period	**$ 23**	$ 25	$ 19	$ 38	$ 24
Transfers in			8		16
Net advances / (payments)	**(1)**		(1)	(1)	
Loans sold	**(8)**		(1)	(17)	(1)
Transfers to OREO				(1)	
Valuation adjustments		(2)			(1)
Balance at end of period	**$ 14**	$ 23	$ 25	$ 19	$ 38

The types of activity that contributed to the change in our OREO during each of the last five quarters are summarized in Figure 43.

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

	2013		2012		
in millions	**Second**	**First**	**Fourth**	**Third**	**Second**
Balance at beginning of period	**$ 21**	$ 22	$ 29	$ 28	$ 61
Properties acquired nonperforming loans	**7**	7	7	11	6
Valuation adjustments	**(2)**	(3)	(2)	(2)	(7)
Properties sold	**(8)**	(5)	(12)	(8)	(32)
Balance at end of period	**$ 18**	$ 21	$ 22	$ 29	$ 28

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Operational risk management

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

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

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

The Operational Risk Management Program provides the framework for the structure, governance, roles and responsibilities as well as the content to manage operational risk for Key. Primary responsibility for managing and monitoring internal control mechanisms lies with the managers of our various lines of business. The Operational Risk Committee, a senior management committee, oversees our level of operational risk and directs and supports our operational infrastructure and related activities. This committee and the Operational Risk Management function are an integral part of our ERM Program. Our Risk Review function periodically assesses the overall effectiveness of our Operational Risk Management Program and our system of internal controls. Risk Review reports the results of reviews on internal controls and systems to senior management and the Audit Committee, and independently supports the Audit Committee s oversight of these controls.

Critical Accounting Policies and Estimates

Our business is dynamic and complex. Consequently, we must exercise judgment in choosing and applying accounting policies and methodologies. These choices are critical: not only are they necessary to comply with GAAP, they also reflect our view of the appropriate way to record and report our overall financial performance. All accounting policies are important, and all policies described in Note 1 (Summary of Significant Accounting Policies) beginning on page 117 of our 2012 Form 10-K should be reviewed for a greater understanding of how we record and report our financial performance.

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

We rely heavily on the use of judgment, assumptions and estimates to make a number of core decisions, including accounting for the allowance for loan and lease losses; contingent liabilities, guarantees and income taxes; derivatives and related hedging activities; and assets and liabilities that involve valuation methodologies. In addition, we may employ outside valuation experts to assist us in determining fair values of certain assets and liabilities. A brief discussion of each of these areas appears on pages 120 through 128 of our 2012 Form 10-K.

At June 30, 2013, $15.3 billion, or 16.9%, of our total assets were measured at fair value on a recurring basis. Approximately 95.9% of these assets, before netting adjustments, were classified as Level 1 or Level 2 within the fair value hierarchy. At June 30, 2013, $1.1 billion, or 1.4%, of our total liabilities were measured at fair value on a recurring basis. Substantially all of these liabilities were classified as Level 1 or Level 2.

During the second quarter of 2013, $38 million, or .1% of our total assets were measured at fair value on a nonrecurring basis. All of these assets were classified as Level 3. At June 30, 2013, there were no liabilities measured at fair value on a nonrecurring basis.

In addition, the education lending securitization trusts assets and liabilities were included on the balance sheet at June 30, 2013 at fair value, in the amount of $2.3 billion and $2.1 billion, respectively.

During the first six months of 2013, we did not significantly alter the manner in which we applied our critical accounting policies or developed related assumptions and estimates.

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European Sovereign Debt Exposures

Our total European sovereign and non-sovereign debt exposure is presented in Figure 44.

Figure 44. European Sovereign and Non-sovereign Debt Exposures

June 30, 2013 *in millions*	Short-and Long-Term Commercial Total [(a)]	Foreign Exchange and Derivatives with Collateral [(b)]	Net Exposure
France:			
Sovereigns			
Non-sovereign financial institutions		$ (7)	$ (7)
Non-sovereign non-financial institutions	$ 74		74
Total	74	(7)	67
Germany:			
Sovereigns			
Non-sovereign financial institutions		(7)	(7)
Non-sovereign non-financial institutions	345		345
Total	345	(7)	338
Greece:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Iceland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Ireland:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	8		8
Total	8		8
Italy:			
Sovereigns			
Non-sovereign financial institutions			

Non-sovereign non-financial institutions	115		115
Total	115		115
Netherlands:			
Sovereigns			
Non-sovereign financial institutions		5	5
Non-sovereign non-financial institutions	128		128
Total	128	5	133
Portugal:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions			
Total			
Spain:			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	73		73
Total	73		73
Switzerland:			
Sovereigns			
Non-sovereign financial institutions		5	5
Non-sovereign non-financial institutions	93		93
Total	93	5	98
United Kingdom:			
Sovereigns			
Non-sovereign financial institutions		7	7
Non-sovereign non-financial institutions	222		222
Total	222	7	229
Other Europe: [c]			
Sovereigns			
Non-sovereign financial institutions			
Non-sovereign non-financial institutions	127		127
Total	127		127
Total Europe:			
Sovereigns			
Non-sovereign financial institutions		3	3
Non-sovereign non-financial institutions	1,185		1,185
Total	$ 1,185	$ 3	$ 1,188

(a) This column represents our outstanding leases.

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

(c) Other Europe consists of the following countries: Austria, Belarus, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Finland, Hungary, Lithuania, Luxembourg, Malta, Norway, Poland, Romania, Russia, Slovakia, Slovenia, Sweden, and Ukraine. Approximately 95% of our exposure in Other Europe is in Belgium, Finland, and Sweden.

Our credit risk exposure is largely concentrated in developed countries with emerging market exposure essentially limited to commercial facilities. At-risk exposures in the rest of the world, which are actively monitored by management, total $1 million.

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Item 3. Quantitative and Qualitative Disclosure about Market Risk
The information presented in the Market risk management section of the Management s Discussion & Analysis of Financial Condition & Results of Operations is incorporated herein by reference.

Item 4. Controls and Procedures
As of the end of the period covered by this report, KeyCorp carried out an evaluation, under the supervision and with the participation of KeyCorp s management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of KeyCorp s disclosure controls and procedures. Based upon that evaluation, KeyCorp s Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective, in all material respects, as of the end of the period covered by this report, in ensuring that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. No changes were made to KeyCorp s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the last fiscal quarter that materially affected, or are reasonably likely to materially affect, KeyCorp s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As of June 30, 2013, KeyCorp and its subsidiaries are defendants or putative defendants in a variety of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigation and arbitration proceedings. The private, civil litigations range from individual actions involving a single plaintiff to class action lawsuits. Investigations involve both formal and informal proceedings, by both government agencies and self-regulatory bodies. These legal proceedings are at varying stages of adjudication, arbitration or investigation and involve a variety of claims (including common law tort, contract claims, securities, ERISA, and consumer protection claims). At times, these legal proceedings may present novel claims or legal theories.

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

The information presented in the Legal Proceedings section of Note 15 (Contingent Liabilities and Guarantees) of the Notes to our Consolidated Financial Statements is incorporated herein by reference.

Item 1A. Risk Factors

For a discussion of certain risk factors affecting us, see the section titled Supervision and Regulation in Part I, Item 1. Business, on pages 7-19 of our 2012 Form 10-K, Part 1, Item 1A. Risk Factors, on pages 19-31 of our 2012 Form 10-K, and our disclosure regarding forward-looking statements in this Form 10-Q.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

From time to time, KeyCorp or its principal subsidiary, KeyBank, may seek to retire, repurchase or exchange outstanding debt of KeyCorp or KeyBank, and capital securities or preferred stock of KeyCorp through cash purchase, privately negotiated transactions or otherwise. Such transactions, if any, depend on prevailing market conditions, our liquidity and capital requirements, contractual restrictions and other factors. The amounts involved may be material.

During the second quarter of 2013, Key completed $112 million of Common Share repurchases on the open market under Key s 2013 capital plan. As previously reported and as authorized by Key s Board of Directors and pursuant to Key s 2013 capital plan submitted to and not objected to by the Federal Reserve, Key has 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.

The following table summarizes Key s repurchases of its Common Shares for the three months ended June 30, 2013.

tal number of shares repurchased (a)		Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares t yet be purchased as part of announced plans or p
2,226,805	$	9.76	2,224,337	54
5,466,496		10.54	5,446,505	46
3,118,070		10.70	3,115,052	42
10,811,371	$	10.43	10,785,894	

(a) Includes Common Shares deemed surrendered by employees in connection with Key s stock compensation and benefit plans to satisfy tax obligations and repurchases in the open market.

(b) Calculated using the remaining general repurchase amount divided by the closing price of KeyCorp Common Shares on April 30, 2013 at $9.97, May 31, 2013 at $10.78, and June 30, 2013 at $11.04, plus our previously existing program shares available of 13,922,496.

Item 6. Exhibits

10.1 Form of Restricted Stock Unit Award Agreement under KeyCorp 2013 Equity Compensation Plan.

10.2 KeyCorp Directors Deferred Share Sub-Plan under KeyCorp 2013 Equity Compensation Plan.

10.3 Letter Agreement between KeyBank National Association and Jeffrey B. Weeden dated June 30, 2013.

10.4 Offer Letter for Donald R. Kimble dated May 19, 2013.

15 Acknowledgment of Independent Registered Public Accounting Firm.

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from KeyCorp s Form 10-Q Report for the quarterly period ended June 30, 2013, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income and Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Changes in Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements.

Information Available on Website

KeyCorp makes available free of charge on its website, www.key.com, its 2012 Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports as soon as reasonably practicable after KeyCorp electronically files such material with, or furnishes it to, the SEC.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KEYCORP
(Registrant)

Date: August 5, 2013

By: Robert L. Morris
Chief Accounting Officer