KEYCORP /NEW/
Form 10-Q
May 01, 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

March 31, 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	920,510,321 Shares
Title of class	**Outstanding at April 30, 2013**

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KEYCORP

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PART II. OTHER INFORMATION

Throughout the Notes to Consolidated Financial Statements (Unaudited) and Management s Discussion & Analysis of Financial Condition & Results of Operations, we use certain acronyms and abbreviations as defined in Note 1 (Basis of Presentation), that begins on page 11.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	March 31, 2013 (Unaudited)	December 31, 2012	March 31, 2012 (Unaudited)
ASSETS			
Cash and due from banks	**$ 621**	$ 584	$ 415
Short-term investments	**3,081**	3,940	3,605
Trading account assets	**701**	605	614
Securities available for sale	**13,496**	12,094	14,633
Held-to-maturity securities (fair value: $3,779, $3,992 and $3,052)	**3,721**	3,931	3,019
Other investments	**1,059**	1,064	1,188
Loans, net of unearned income of $923, $957 and $1,282	**52,574**	52,822	49,226
Less: Allowance for loan and lease losses	**893**	888	944
Net loans	**51,681**	51,934	48,282
Loans held for sale	**434**	599	511
Premises and equipment	**930**	965	937
Operating lease assets	**309**	288	335
Goodwill	**979**	979	917
Other intangible assets	**159**	171	15
Corporate-owned life insurance	**3,352**	3,333	3,270
Derivative assets	**609**	693	830
Accrued income and other assets (including $50 of consolidated LIHTC guaranteed funds VIEs, see Note 9)[(a)]	**2,884**	2,774	3,070
Discontinued assets (including $2,358 of consolidated education loan securitization trust VIEs (see Note 9) and $154 of loans in portfolio at fair value)[(a)]	**5,182**	5,282	5,790
Total assets	**$ 89,198**	$ 89,236	$ 87,431
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 32,700**	$ 32,380	$ 29,124
Savings deposits	**2,546**	2,433	2,075
Certificates of deposit ($100,000 or more)	**2,998**	2,879	3,984
Other time deposits	**4,324**	4,575	5,848
Total interest-bearing	**42,568**	42,267	41,031
Noninterest-bearing	**21,564**	23,319	19,606
Deposits in foreign office interest-bearing	**522**	407	857
Total deposits	**64,654**	65,993	61,494
Federal funds purchased and securities sold under repurchase agreements	**1,950**	1,609	1,846
Bank notes and other short-term borrowings	**378**	287	324
Derivative liabilities	**524**	584	754
Accrued expense and other liabilities	**1,352**	1,387	1,424
Long-term debt	**7,785**	6,847	8,898
Discontinued liabilities (including $2,151 of consolidated education loan securitization trust VIEs at fair value, see Note 9)[(a)]	**2,176**	2,220	2,575

Total liabilities		**78,819**		78,927		77,315
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, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905 and 1,016,969,905 shares		**1,017**		1,017		1,017
Capital surplus		**4,059**		4,126		4,116
Retained earnings		**7,065**		6,913		6,411
Treasury stock, at cost (94,388,605, 91,201,285 and 60,868,267)		**(1,930)**		(1,952)		(1,717)
Accumulated other comprehensive income (loss)		**(162)**		(124)		(19)
Key shareholders equity		**10,340**		10,271		10,099
Noncontrolling interests		**39**		38		17
Total equity		**10,379**		10,309		10,116
Total liabilities and equity	**$**	**89,198**	$	89,236	$	87,431

(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 March 31, 2013	2012
INTEREST INCOME		
Loans	**$ 548**	$ 536
Loans held for sale	**4**	5
Securities available for sale	**80**	116
Held-to-maturity securities	**18**	12
Trading account assets	**6**	6
Short-term investments	**2**	1
Other investments	**9**	8
Total interest income	**667**	684
INTEREST EXPENSE		
Deposits	**45**	77
Federal funds purchased and securities sold under repurchase agreements	**1**	1
Bank notes and other short-term borrowings	**1**	2
Long-term debt	**37**	51
Total interest expense	**84**	131
NET INTEREST INCOME	**583**	**553**
Provision (credit) for loan and lease losses	**55**	42
Net interest income (expense) after provision for loan and lease losses	**528**	511
NONINTEREST INCOME [a]		
Trust and investment services income	**95**	96
Investment banking and debt placement fees	**79**	61
Service charges on deposit accounts	**69**	68
Operating lease income and other leasing gains	**23**	52
Corporate services income	**45**	44
Cards and payments income	**37**	29
Corporate-owned life insurance income	**30**	30
Consumer mortgage income	**7**	9
Net gains (losses) from principal investing	**8**	35
Other income [b]	**32**	18
Total noninterest income	**425**	442
NONINTEREST EXPENSE		
Personnel	**391**	372
Net occupancy	**64**	64
Computer processing	**39**	41
Business services and professional fees	**35**	37
Equipment	**26**	26
Operating lease expense	**12**	17
Marketing	**6**	13
FDIC assessment	**8**	8
Intangible asset amortization on credit cards	**8**	
Other intangible asset amortization	**4**	1
Provision (credit) for losses on lending-related commitments	**3**	
OREO expense, net	**3**	6
Other expense	**82**	94

Total noninterest expense		**681**		679
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**272**		274
Income taxes		**70**		73
INCOME (LOSS) FROM CONTINUING OPERATIONS		**202**		201
Income (loss) from discontinued operations, net of taxes of $4 and ($1) (see Note 11)		**3**		(1)
NET INCOME (LOSS)		**205**		200
Less: Net income (loss) attributable to noncontrolling interests		**1**		
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**204**	$	200
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**196**	$	195
Net income (loss) attributable to Key common shareholders		**199**		194
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.21**	$	.21
Income (loss) from discontinued operations, net of taxes				
Net income (loss) attributable to Key common shareholders [(c)]		**.22**		.20
Per common share assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.21**	$	.20
Income (loss) from discontinued operations, net of taxes				
Net income (loss) attributable to Key common shareholders [(c)]		**.21**		.20
Cash dividends declared per common share	**$**	**.05**	$	.03
Weighted-average common shares outstanding (000)		**920,316**		949,342
Weighted-average common shares and potential common shares outstanding (000) [(d)]		**926,051**		953,971

(a) The noninterest income line items have been changed for the current quarter and all prior quarters to reflect Key s current business mix.

(b) For the three months ended March 31, 2013 and 2012, we did not have any impairment losses related to securities.

(c) EPS may not foot due to rounding.

(d) 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 March 31, 2013	2012
Net income (loss)	**$ 205**	$ 200
Other comprehensive income (loss), net of tax:		
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($13) and ($6)	**(22)**	(11)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($5) and $7	**(8)**	12
Foreign currency translation adjustments, net of income taxes	**(11)**	6
Net pension and postretirement benefit costs, net of income taxes	**3**	2
Total other comprehensive income (loss), net of tax	**(38)**	9
Comprehensive income (loss)	**167**	209
Less: Comprehensive income attributable to noncontrolling interests	**1**	
Comprehensive income (loss) attributable to Key	**$ 166**	$ 209

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Changes in Equity (Unaudited)

			Key Shareholders Equity						
dollars in millions, except per share amounts	**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)**	**Noncontrolling Interests**
BALANCE AT DECEMBER 31, 2011	2,905	953,008	$ 291	$ 1,017	$ 4,194	$ 6,246	$ (1,815)	$ (28)	$ 17
Net income (loss)						200			
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($6)								(11)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $7								12	
Foreign currency translation adjustments, net of income taxes								6	
Net pension and postretirement benefit costs, net of income taxes								2	
Deferred compensation					4				
Cash dividends declared on common shares ($.03 per share)						(29)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($1.9375 per share)						(6)			
Common shares reissued (returned) for stock options and other employee benefit plans		3,094			(82)		98		
BALANCE AT MARCH 31, 2012	2,905	956,102	$ 291	$ 1,017	$ 4,116	$ 6,411	$ (1,717)	$ (19)	$ 17
BALANCE AT DECEMBER 31, 2012	2,905	925,769	$ 291	$ 1,017	$ 4,126	$ 6,913	$ (1,952)	$ (124)	$ 38
Net income (loss)						**204**			**1**
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($13)								**(22)**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($5)								**(8)**	
Foreign currency translation adjustments, net of income taxes								**(11)**	
Net pension and postretirement benefit costs, net of income taxes								**3**	
Deferred compensation					**4**				
Cash dividends declared on common shares ($.05 per share)						**(47)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($1.9375 per share)						**(5)**			
Common shares repurchased		**(6,790)**					**(65)**		
Common shares reissued (returned) for stock options and other employee benefit plans		**3,602**			**(71)**		**87**		
BALANCE AT MARCH 31, 2013	**2,905**	**922,581**	**$ 291**	**$ 1,017**	**$ 4,059**	**$ 7,065**	**$ (1,930)**	**$ (162)**	**$ 39**

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Three months ended March 31, 2013	2012
OPERATING ACTIVITIES		
Net income (loss)	$ **205**	$ 200
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision (credit) for loan and lease losses	**55**	42
Depreciation, amortization and accretion expense, net	**61**	48
FDIC (payments) net of FDIC expense	**7**	7
Deferred income taxes (benefit)	**32**	28
Net losses (gains) and writedown on OREO	**3**	6
Net losses (gains) from loan sales	**(31)**	(22)
Net losses (gains) from principal investing	**(8)**	(35)
Provision (credit) for losses on lending-related commitments	**3**	
(Gains) losses on leased equipment	**(5)**	(27)
Net decrease (increase) in loans held for sale excluding loan transfers from continuing operations	**(1,093)**	(912)
Net decrease (increase) in trading account assets	**(96)**	9
Other operating activities, net	**(206)**	(435)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**(1,073)**	(1,091)
INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments	**859**	(86)
Purchases of securities available for sale	**(2,755)**	(2)
Proceeds from sales of securities available for sale	**3**	
Proceeds from prepayments and maturities of securities available for sale	**1,315**	1,364
Proceeds from prepayments and maturities of held-to-maturity securities	**210**	96
Purchases of held-to-maturity securities		(1,005)
Purchases of other investments	**(11)**	(16)
Proceeds from sales of other investments	**3**	2
Proceeds from prepayments and maturities of other investments	**20**	24
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**156**	202
Proceeds from loan sales	**1,345**	1,195
Purchases of premises and equipment	**(10)**	(26)
Proceeds from sales of premises and equipment	**8**	
Proceeds from sales of other real estate owned	**5**	12
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**1,148**	1,760
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**(1,339)**	(462)
Net increase (decrease) in short-term borrowings	**433**	122
Net proceeds from issuance of long-term debt	**1,007**	
Payments on long-term debt	**(30)**	(572)
Repurchase of Treasury Shares	**(65)**	
Net proceeds from issuance of common shares	**8**	
Cash dividends paid	**(52)**	(35)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(38)**	(947)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**37**	(278)
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	**584**	693
CASH AND DUE FROM BANKS AT END OF PERIOD	$ **621**	$ 415
Additional disclosures relative to cash flows:		
Interest paid	$ **110**	$ 101

Income taxes paid (refunded)		**25**		3
Noncash items:				
Loans transferred to portfolio from held for sale			$	19
Loans transferred to other real estate owned	**$**	**7**		5

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.

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

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.

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 noninterest income line items reported on the consolidated statements of income have been changed for the current quarter and all prior quarters to reflect our current business mix.

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.

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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 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 will 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).

Accounting Guidance Pending Adoption at March 31, 2013

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 March 31, 2013		2012
EARNINGS			
Income (loss) from continuing operations	**$**	**202**	$ 201
Less: Net income (loss) attributable to noncontrolling interests		**1**	
Income (loss) from continuing operations attributable to Key		**201**	201
Less: Dividends on Series A Preferred Stock		**5**	6
Income (loss) from continuing operations attributable to Key common shareholders		**196**	195
Income (loss) from discontinued operations, net of taxes [a]		**3**	(1)
Net income (loss) attributable to Key common shareholders	**$**	**199**	$ 194
WEIGHTED-AVERAGE COMMON SHARES			
Weighted-average common shares outstanding (000)		**920,316**	949,342
Effect of dilutive convertible preferred stock, common share options and other stock awards (000)		**5,735**	4,629
Weighted-average common shares and potential common shares outstanding (000)		**926,051**	953,971
EARNINGS PER COMMON SHARE			
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.21**	$ .21
Income (loss) from discontinued operations, net of taxes [a]			
Net income (loss) attributable to Key common shareholders [b]		**.22**	.20
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$**	**.21**	$ .20
Income (loss) from discontinued operations, net of taxes [a]			
Net income (loss) attributable to Key common shareholders assuming dilution [b]		**.21**	.20

(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 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	March 31, 2013	December 31, 2012	March 31, 2012
Commercial, financial and agricultural [a]	$ **23,412**	$ 23,242	$ 20,217
Commercial real estate:			
Commercial mortgage	**7,544**	7,720	7,807
Construction	**1,057**	1,003	1,273
Total commercial real estate loans	**8,601**	8,723	9,080
Commercial lease financing	**4,796**	4,915	5,325
Total commercial loans	**36,809**	36,880	34,622
Residential prime loans:			
Real estate residential mortgage	**2,176**	2,174	1,967
Home equity:			
Key Community Bank	**9,809**	9,816	9,153
Other	**401**	423	507
Total home equity loans	**10,210**	10,239	9,660
Total residential prime loans	**12,386**	12,413	11,627
Consumer other Key Community Bank	**1,353**	1,349	1,212
Credit cards	**693**	729	
Consumer other:			
Marine	**1,254**	1,358	1,654
Other	**79**	93	111
Total consumer other	**1,333**	1,451	1,765
Total consumer loans	**15,765**	15,942	14,604
Total loans [b] [c]	$ **52,574**	$ 52,822	$ 49,226

(a) March 31, 2013 and December 31, 2012 loan balances includes $93 million and $90 million of commercial credit card balances, respectively.

(b) Excluded at March 31, 2013, December 31, 2012, and March 31, 2012, are loans in the amount of $5.1 billion, $5.2 billion and $5.7 billion, respectively, related to the discontinued operations of the education lending business.

(c) March 31, 2013 includes purchased loans of $204 million of which $22 million were PCI loans. December 31, 2012 includes purchased loans of $217 million of which $23 million were PCI loans.

Our loans held for sale are summarized as follows:

in millions	March 31, 2013	December 31, 2012	March 31, 2012
Commercial, financial and agricultural	$ **180**	$ 29	$ 28
Real estate commercial mortgage	**196**	477	362
Real estate construction			15
Commercial lease financing	**9**	8	30
Real estate residential mortgage	**49**	85	76
Total loans held for sale	$ **434**	$ 599	$ 511

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

in millions	March 31, 2013	December 31, 2012	March 31, 2012
Balance at beginning of the period	**$ 599**	$ 628	$ 728
New originations	**1,075**	1,686	935
Transfers from held to maturity, net	**19**	38	19
Loan sales	**(1,257)**	(1,747)	(1,168)
Loan draws (payments), net		(4)	(3)
Transfers to OREO / valuation adjustments	**(2)**	(2)	
Balance at end of period	**$ 434**	$ 599	$ 511

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4. Asset Quality

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

Our nonperforming assets and past due loans were as follows:

in millions	March 31, 2013	December 31, 2012	March 31, 2012
Total nonperforming loans [a], [b]	**$ 650**	$ 674	$ 666
Nonperforming loans held for sale	**23**	25	24
OREO	**21**	22	61
Other nonperforming assets	**11**	14	16
Total nonperforming assets	**$ 705**	$ 735	$ 767
Nonperforming assets from discontinued operations - education lending [c]	**$ 15**	$ 20	$ 19
Restructured loans included in nonperforming loans [a]	**$ 178**	$ 249	$ 184
Restructured loans with an allocated specific allowance [d]	**52**	114	47
Specifically allocated allowance for restructured loans [e]	**30**	33	18
Accruing loans past due 90 days or more	**$ 83**	$ 78	$ 169
Accruing loans past due 30 through 89 days	**368**	424	420

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

(b) March 31, 2013 and December 31, 2012, excludes $22 million and $23 million of PCI loans, respectively.

(c) Includes approximately $4 million and $3 million of restructured loans at March 31, 2013 and December 31, 2012, respectively. There were no additional restructured loans at March 31, 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 March 31, 2013, the outstanding unpaid principal balance and carrying value of all PCI loans was $29 million and $22 million, respectively. Changes in the accretable yield during 2013 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $4 million at March 31, 2013.

At March 31, 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 73% of their original contractual amount.

At March 31, 2013, our twenty largest nonperforming loans totaled $194 million, representing 30% of total loans on nonperforming status from continuing operations. At March 31, 2012, the twenty largest nonperforming loans totaled $215 million, representing 32% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $6 million for the three months ended March 31, 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 March 31, 2013, December 31, 2012 and March 31, 2012:

March 31, 2013 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 93	$ 131		$ 63
Commercial real estate:				
Commercial mortgage	87	140		88
Construction	48	175		48
Total commercial real estate loans	135	315		136
Total commercial loans with no related allowance recorded	228	446		199
Real estate residential mortgage	15	15		18
Home equity:				
Key Community Bank	64	64		65
Other	2	2		2
Total home equity loans	66	66		67
Consumer other:				
Marine	3	3		1
Total consumer other	3	3		1
Total consumer loans	84	84		86
Total loans with no related allowance recorded	312	530		285
With an allowance recorded:				
Commercial, financial and agricultural	15	23	$ 8	24
Commercial real estate:				
Commercial mortgage	9	9	3	8
Construction		9		
Total commercial real estate loans	9	18	3	8
Total commercial loans with an allowance recorded	24	41	11	32
Real estate residential mortgage	18	18	1	18
Home equity:				
Key Community Bank	26	25	14	24
Other	10	10		10
Total home equity loans	36	35	14	34
Consumer other Key Community Bank	3	3	1	2
Credit cards	4	4	1	3

Consumer other:				
Marine	47	47	5	53
Other	1	1	1	1
Total consumer other	48	48	6	54
Total consumer loans	109	108	23	111
Total loans with an allowance recorded	133	149	34	143
Total	$ 445	$ 679	$ 34	$ 428

(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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March 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	$ 77	$ 189		$ 83
Commercial real estate:				
Commercial mortgage	113	252		106
Construction	47	164		39
Total commercial real estate loans	160	416		145
Total commercial loans with no related allowance recorded	237	605		228
Real estate residential mortgage				
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				
Total loans with no related allowance recorded	237	605		228
With an allowance recorded:				
Commercial, financial and agricultural	49	60	$ 19	55
Commercial real estate:				
Commercial mortgage	69	111	16	83
Construction	4	4	3	8
Total commercial real estate loans	73	115	19	91
Commercial lease financing				
Total commercial loans with an allowance recorded	122	175	38	146
Real estate residential mortgage				
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								
Total loans with an allowance recorded		122		175		38		146
Total	$	359	$	780	$	38	$	374

(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 March 31, 2013, and 2012, interest income recognized on the outstanding balances of accruing impaired loans totaled $2 million and $1 million, respectively.

At March 31, 2013, aggregate restructured loans (accrual, nonaccrual and held-for-sale loans) totaled $294 million, compared to $320 million at December 31, 2012, and $293 million at March 31, 2012. We added $34 million in restructured loans during the first three months of 2013, which were partially offset by $60 million in payments and charge-offs.

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A further breakdown of TDRs included in nonperforming loans by loan category as of March 31, 2013, follows:

March 31, 2013 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	48	$ 58	$ 25
Commercial real estate:			
Real estate commercial mortgage	17	61	23
Real estate construction	6	30	4
Total commercial real estate loans	23	91	27
Total commercial loans	71	149	52
Real estate residential mortgage	347	21	21
Home equity:			
Key Community Bank	1,479	75	74
Other	229	6	6
Total home equity loans	1,708	81	80
Consumer other Key Community Bank	59	2	2
Credit cards	360	2	2
Consumer other:			
Marine	302	41	20
Other	36	1	1
Total consumer other	338	42	21
Total consumer loans	2,812	148	126
Total nonperforming TDRs	2,883	297	178
Prior-year accruing [a]			
Commercial, financial and agricultural	106	11	5
Commercial real estate:			
Real estate commercial mortgage	4	22	15
Real estate construction	1	23	29
Total commercial real estate loans	5	45	44
Total commercial loans	111	56	49
Real estate residential mortgage	121	12	12
Home equity:			
Key Community Bank	147	15	15
Other	190	6	5
Total home equity loans	337	21	20
Consumer other Key Community Bank	24	1	1
Credit cards	308	2	2
Consumer other:			

Marine	263		30		30
Other	57		2		2
Total consumer other	320		32		32
Total consumer loans	1,110		68		67
Total prior-year accruing TDRs	1,221		124		116
Total TDRs	4,104	$	421	$	294

(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 March 31, 2012, follows:

March 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	102	$ 105	$ 64
Commercial real estate:			
Real estate commercial mortgage	16	102	64
Real estate construction	8	35	19
Total commercial real estate loans	24	137	83
Total commercial loans	126	242	147
Real estate residential mortgage	43	5	5
Home equity:			
Key Community Bank	27	3	3
Other	32	1	1
Total home equity loans	59	4	4
Consumer other Key Community Bank	2		
Consumer other:			
Marine	48	28	28
Other	6		
Total consumer other	54	28	28
Total consumer loans	158	37	37
Total nonperforming TDRs	284	279	184
Prior-year accruing [(a)]			
Commercial, financial and agricultural	176	20	11
Commercial real estate:			
Real estate commercial mortgage	7	75	57
Real estate construction	1	15	2
Total commercial real estate loans	8	90	59
Total commercial loans	184	110	70
Real estate residential mortgage	113	12	12
Home equity:			
Key Community Bank	88	7	7
Other	104	3	3
Total home equity loans	192	10	10
Consumer other Key Community Bank	19		
Consumer other:			
Marine	140	15	15
Other	51	2	2
Total consumer other	191	17	17
Total consumer loans	515	39	39

Total prior-year accruing TDRs	699		149		109
Total TDRs	983	$	428	$	293

(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 240 consumer loan TDRs with a combined recorded investment of $14 million which have experienced payment defaults during the first three months of 2013 arising from modifications resulting in TDR status during 2012. There were no significant payment defaults during the first three months of 2013 arising from commercial loans that were designated as TDRs during 2012.

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

dollars in millions	March 31, 2013	December 31, 2012	March 31, 2012
Interest rate reduction	**$ 85**	$ 104	$ 184
Forgiveness of principal	**10**	7	11
Other modification of loan terms	**6**	7	22
Total	**$ 101**	$ 118	$ 217
Total commercial and consumer TDRs [(a), (b)]	**$ 294**	$ 320	$ 293
Total commercial TDRs to total commercial loans	**.27 %**	.32 %	.63 %
Total commercial TDRs to total loans	**.19**	.22	.44
Total commercial loans	**$ 36,809**	$ 36,880	$ 34,622
Total loans	**52,574**	52,822	49,226

(a) Commitments outstanding to lend additional funds to borrowers whose terms have been modified in TDRs are $33 million, $32 million, and $24 million at March 31, 2013, December 31, 2012, and March 31, 2012, respectively.

(b) Concession types for consumer accruing and nonaccruing TDRs consisted primarily of interest rate reductions and modifications due to updated regulatory guidance in the quarters ended March 31, 2013, December 31, 2012, and March 31, 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 March 31, 2013, approximately $51.5 billion, or 97.9%, of our total loans are current. At March 31, 2013, total past due loans and nonperforming loans of $1.1 billion represent approximately 2.1% of total loans.

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

March 31, 2013 *in millions*	**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**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 23,134	$ 35	$ 74	$ 26	$ 142	$ 277	$ 1	$ 23,412
Commercial real estate:								
Commercial mortgage	7,368	35	14	11	114	174	2	7,544
Construction	1,024	5		1	27	33		1,057
Total commercial real estate loans	8,392	40	14	12	141	207	2	8,601
Commercial lease financing	4,728	34	11	11	12	68		4,796
Total commercial loans	$ 36,254	$ 109	$ 99	$ 49	$ 295	$ 552	$ 3	$ 36,809
Real estate residential mortgage	$ 2,037	$ 15	$ 5	$ 7	$ 96	$ 123	$ 16	$ 2,176
Home equity:								
Key Community Bank	9,512	51	28	17	199	295	2	9,809
Other	371	7	3	2	18	30		401
Total home equity loans	9,883	58	31	19	217	325	2	10,210
Consumer other Key Community Bank	1,331	8	4	6	3	21	1	1,353
Credit cards	668	8	4		13	25		693
Consumer other:								
Marine	1,202	18	7	2	25	52		1,254
Other	76	1	1		1	3		79
Total consumer other	1,278	19	8	2	26	55		1,333
Total consumer loans	$ 15,197	$ 108	$ 52	$ 34	$ 355	$ 549	$ 19	$ 15,765
Total loans	$ 51,451	$ 217	$ 151	$ 83	$ 650	$ 1,101	$ 22	$ 52,574

December 31, 2012 *in millions*	**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**	**Total Loans**
LOAN TYPE								
Commercial, financial and agricultural	$ 23,030	$ 56	$ 34	$ 22	$ 99	$ 211	$ 1	$ 23,242
Commercial real estate:								
Commercial mortgage	7,556	21	11	9	120	161	3	7,720
Construction	943	1	2	1	56	60		1,003
Total commercial real estate loans	8,499	22	13	10	176	221	3	8,723
Commercial lease financing	4,772	88	31	8	16	143		4,915

Total commercial loans	$ 36,301	$ 166	$ 78	$ 40	$ 291	$ 575	$ 4	$ 36,880
Real estate residential mortgage	$ 2,023	$ 16	$ 10	$ 6	$ 103	$ 135	$ 16	$ 2,174
Home equity:								
Key Community Bank	9,506	54	26	17	210	307	3	9,816
Other	387	9	4	2	21	36		423
Total home equity loans	9,893	63	30	19	231	343	3	10,239
Consumer other Key Community Bank	1,325	9	5	8	2	24		1,349
Credit cards	706	7	5		11	23		729
Consumer other:								
Marine	1,288	23	9	4	34	70		1,358
Other	87	2	1	1	2	6		93
Total consumer other	1,375	25	10	5	36	76		1,451
Total consumer loans	$ 15,322	$ 120	$ 60	$ 38	$ 383	$ 601	$ 19	$ 15,942
Total loans	$ 51,623	$ 286	$ 138	$ 78	$ 674	$ 1,176	$ 23	$ 52,822

(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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March 31, 2012 *in millions*	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	Total Loans
LOAN TYPE							
Commercial, financial and agricultural	$ 19,989	$ 25	$ 16	$ 19	$ 168	$ 228	$ 20,217
Commercial real estate:							
Commercial mortgage	7,532	7	11	82	175	275	7,807
Construction	1,170	19	7	11	66	103	1,273
Total commercial real estate loans	8,702	26	18	93	241	378	9,080
Commercial lease financing	5,140	126	22	15	22	185	5,325
Total commercial loans	$ 33,831	$ 177	$ 56	$ 127	$ 431	$ 791	$ 34,622
Real estate residential mortgage	$ 1,852	$ 20	$ 8	$ 5	$ 82	$ 115	$ 1,967
Home equity:							
Key Community Bank	8,941	53	34	16	109	212	9,153
Other	476	9	6	4	12	31	507
Total home equity loans	9,417	62	40	20	121	243	9,660
Consumer other Key Community Bank	1,189	9	4	9	1	23	1,212
Consumer other:							
Marine	1,576	30	11	7	30	78	1,654
Other	106	2	1	1	1	5	111
Total consumer other	1,682	32	12	8	31	83	1,765
Total consumer loans	$ 14,140	$ 123	$ 64	$ 42	$ 235	$ 464	$ 14,604
Total loans	$ 47,971	$ 300	$ 120	$ 169	$ 666	$ 1,255	$ 49,226

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 $22 million of PCI loans at March 31, 2013, based on bond rating, regulatory classification and payment activity as of March 31, 2013, and 2012 are as follows:

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Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [a]

March 31,

in millions

RATING (b) (c)	Commercial, financial and agricultural 2013	Commercial, financial and agricultural 2012	RE Commercial 2013	RE Commercial 2012	RE Construction 2013	RE Construction 2012	Commercial Lease 2013	Commercial Lease 2012	Total 2013	Total 2012
AAA AA	**$ 222**	$ 165		$ 3	**$ 1**	$ 3	**$ 548**	$ 599	**$ 771**	$ 770
A	**522**	785	**$ 75**	62	**1**	1	**950**	1,156	**1,548**	2,004
BBB BB	**21,120**	17,231	**6,529**	6,007	**866**	788	**3,043**	3,193	**31,558**	27,219
B	**672**	848	**426**	568	**23**	165	**165**	236	**1,286**	1,817
CCC C	**875**	1,188	**512**	1,167	**166**	316	**90**	141	**1,643**	2,812
Total	**$ 23,411**	$ 20,217	**$ 7,542**	$ 7,807	**$ 1,057**	$ 1,273	**$ 4,796**	$ 5,325	**$ 36,806**	$ 34,622

(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]

March 31,

in millions

GRADE	Residential Prime 2013	Residential Prime 2012
Pass	$ 12,029	$ 11,399
Substandard	339	228
Total	$ 12,368	$ 11,627

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

March 31, *in millions*	**Consumer Key Community Bank** **2013**	**2012**	**Credit cards** **2013**	**2012**	**Consumer Marine** **2013**	**2012**	**Consumer Other** **2013**	**2012**	**Total** **2013**	**2012**
Performing	**$ 1,349**	$ 1,211	**$ 680**		**$ 1,229**	$ 1,624	**$ 78**	$ 110	**$ 3,336**	$ 2,945
Nonperforming	**3**	1	**13**		**25**	30	**1**	1	**42**	32
Total	**$ 1,352**	$ 1,212	**$ 693**		**$ 1,254**	$ 1,654	**$ 79**	$ 111	**$ 3,378**	$ 2,977

(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 March 31, 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 March 31, 2013, the ALLL was $893 million, or 1.70% of loans, compared to $944 million, or 1.92% of loans, at March 31, 2012. At March 31, 2013, the ALLL was 137.38% of nonperforming loans, compared to 141.74% at March 31, 2012.

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

	Three months ended March 31,	
in millions	**2013**	**2012**
Balance at beginning of period continuing operations	**$ 888**	$ 1,004
Charge-offs	**(90)**	(132)
Recoveries	**41**	31
Net loans and leases charged off	**(49)**	(101)
Provision for loan and lease losses from continuing operations	**55**	42
Foreign currency translation adjustment	**(1)**	(1)
Balance at end of period continuing operations	**$ 893**	$ 944

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

in millions	December 31, 2012	Provision	Charge-offs	Recoveries	March 31, 2013
Commercial, financial and agricultural	$ 327	**$ 13**	**$ (14)**	**$ 12**	**$ 338**
Real estate commercial mortgage	198	**3**	**(13)**	**5**	**193**
Real estate construction	41	**(13)**	**(1)**	**8**	**35**
Commercial lease financing	55	**9**	**(6)**	**4**	**62**
Total commercial loans	621	**12**	**(34)**	**29**	**628**
Real estate residential mortgage	30	**10**	**(6)**		**34**
Home equity:					
Key Community Bank	105	**17**	**(18)**	**2**	**106**
Other	25	**(3)**	**(6)**	**2**	**18**
Total home equity loans	130	**14**	**(24)**	**4**	**124**
Consumer other Key Community Bank	38	**2**	**(9)**	**2**	**33**
Credit cards	26	**14**	**(8)**		**32**
Consumer other:					
Marine	39	**2**	**(8)**	**5**	**38**
Other	4		**(1)**	**1**	**4**
Total consumer other:	43	**2**	**(9)**	**6**	**42**
Total consumer loans	267	**42**	**(56)**	**12**	**265**
Total ALLL continuing operations	888	**54** [a]	**(90)**	**41**	**893**

Discontinued operations		55		**6**		**(16)**		**4**		**49**
Total ALLL including discontinued operations	$	943	**$**	**60**	**$**	**(106)**	**$**	**45**	**$**	**942**

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

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in millions	December 31, 2011	Provision	Charge-offs	Recoveries	March 31, 2012
Commercial, financial and agricultural	$ 334	$ (3)	$ (26)	$ 11	$ 316
Real estate commercial mortgage	272	12	(23)	2	263
Real estate construction	63	3	(11)	1	56
Commercial lease financing	78	(10)	(4)	4	68
Total commercial loans	747	2	(64)	18	703
Real estate residential mortgage	37	4	(6)	1	36
Home equity:					
Key Community Bank	103	14	(25)	2	94
Other	29	6	(8)	1	28
Total home equity loans	132	20	(33)	3	122
Consumer other Key Community Bank	41	5	(10)	1	37
Consumer other:					
Marine	46	9	(17)	7	45
Other	1	1	(2)	1	1
Total consumer other:	47	10	(19)	8	46
Total consumer loans	257	39	(68)	13	241
Total ALLL continuing operations	1,004	41 (a)	(132)	31	944
Discontinued operations	104	5	(23)	4	90
Total ALLL including discontinued operations	$ 1,108	$ 46	$ (155)	$ 35	$ 1,034

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

Our ALLL decreased by $51 million, or 5%, since the first 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. Our asset quality metrics have shown continued improvement resulting in favorable risk rating migration and 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 more moderate level of lending activity, 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 $445 million, with a corresponding allowance of $34 million at March 31, 2013. Loans outstanding collectively evaluated for impairment totaled $52.1 billion, with a corresponding allowance of $859 million at March 31, 2013. At March 31, 2013, PCI loans evaluated for impairment totaled $22 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 March 31, 2013.

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A breakdown of the individual and collective ALLL and the corresponding loan balances as of March 31, 2013, follows:

March 31, 2013 *in millions*	**Allowance** Individually Evaluated for Impairment	**Allowance** Collectively Evaluated for Impairment	**Allowance** Purchased Credit Impaired	**Outstanding** Loans	**Outstanding** Individually Evaluated for Impairment	**Outstanding** Collectively Evaluated for Impairment	**Outstanding** Purchased Credit Impaired
Commercial, financial and agricultural	$ 8	$ 330		$ 23,412	$ 108	$ 23,303	$ 1
Commercial real estate:							
Commercial mortgage	3	190		7,544	96	7,446	2
Construction		35		1,057	48	1,009	
Total commercial real estate loans	3	225		8,601	144	8,455	2
Commercial lease financing		62		4,796		4,796	
Total commercial loans	11	617		36,809	252	36,554	3
Real estate residential mortgage	1	33		2,176	33	2,127	16
Home equity:							
Key Community Bank	14	92		9,809	90	9,717	2
Other		18		401	12	389	
Total home equity loans	14	110		10,210	102	10,106	2
Consumer other Key Community Bank	1	32		1,353	4	1,348	1
Credit cards	1	31		693	3	690	
Consumer other:							
Marine	5	33		1,254	50	1,204	
Other	1	3		79	1	78	
Total consumer other	6	36		1,333	51	1,282	
Total consumer loans	23	242		15,765	193	15,553	19
Total ALLL continuing operations	34	859		52,574	445	52,107	22
Discontinued operations	1	48		5,086 (a)	4	5,082	
Total ALLL including discontinued operations	$ 35	$ 907		$ 57,660	$ 449	$ 57,189	$ 22

(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:

December 31, 2012 *in millions*	**Allowance** Individually Evaluated for Impairment	**Allowance** Collectively Evaluated for Impairment	**Allowance** Purchased Credit Impaired	**Outstanding** Loans	**Outstanding** Individually Evaluated for Impairment	**Outstanding** Collectively Evaluated for Impairment	**Outstanding** Purchased Credit Impaired
Commercial, financial and agricultural	$ 12	$ 314		$ 23,242	$ 65	$ 23,176	$ 1
Commercial real estate:							
Commercial mortgage	1	198		7,720	96	7,621	3

Construction		41		1,003	48	955	
Total commercial real estate loans	1	239		8,723	144	8,576	3
Commercial lease financing		55		4,915		4,915	
Total commercial loans	13	608		36,880	209	36,667	4
Real estate residential mortgage	1	29	$ 1	2,174	38	2,120	16
Home equity:							
Key Community Bank	11	94		9,816	87	9,726	3
Other	1	24		423	12	411	
Total home equity loans	12	118		10,239	99	10,137	3
Consumer other Key Community Bank	2	36		1,349	2	1,347	
Credit cards		26		729	2	727	
Consumer other:							
Marine	7	32		1,358	60	1,298	
Other		3		93	1	92	
Total consumer other	7	35		1,451	61	1,390	
Total consumer loans	22	244	1	15,942	202	15,721	19
Total ALLL continuing operations	35	852	1	52,822	411	52,388	23
Discontinued operations		55		5,201 (a)	3	5,198	
Total ALLL including discontinued operations	$ 35	$ 907	$ 1	$ 58,023	$ 414	$ 57,586	$ 23

(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 March 31, 2012, follows:

March 31, 2012	Allowance[a]		Outstanding[a]		
in millions	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Commercial, financial and agricultural	$ 19	$ 297	$ 20,217	$ 125	$ 20,092
Commercial real estate:					
Commercial mortgage	16	247	7,807	182	7,625
Construction	3	53	1,273	52	1,221
Total commercial real estate loans	19	300	9,080	234	8,846
Commercial lease financing		68	5,325		5,325
Total commercial loans	38	665	34,622	359	34,263
Real estate residential mortgage		36	1,967		1,967
Home equity:					
Key Community Bank		94	9,153		9,153
Other		28	507		507
Total home equity loans		122	9,660		9,660
Consumer other Key Community Bank		37	1,212		1,212
Consumer other:					
Marine		45	1,654		1,654
Other		1	111		111
Total consumer other		46	1,765		1,765
Total consumer loans		241	14,604		14,604
Total ALLL continuing operations	38	906	49,226	359	48,867
Discontinued operations		90	5,715 [b]		5,715
Total ALLL including discontinued operations	$ 38	$ 996	$ 54,941	$ 359	$ 54,582

(a) There were no PCI loans at March 31, 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 $13 million since the first quarter of 2012 to $32 million at March 31, 2013. When combined with our ALLL, our total allowance for credit losses represented 1.76% of loans at March 31, 2013, compared to 2.01% at March 31, 2012.

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

in millions	Three months ended March 31, 2013	2012
Balance at beginning of period	**$ 29**	$ 45
Provision (credit) for losses on lending-related commitments	**3**	
Balance at end of period	**$ 32**	$ 45

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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 identical 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 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 March 31, 2013:

March 31, 2013

in millions		**Fair Value**		**Unfunded Commitments**
INVESTMENT TYPE				
Passive funds [(a)]	$	17	$	1
Co-managed funds [(b)]		22		1
Total	$	39	$	2

(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), the Key Principal Partners (KPP) Controller and certain members of the KPP Controller s 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 March 31, 2013, was $435 million and $89 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 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

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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.

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 March 31, 2013, December 31, 2012 and March 31, 2012.

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March 31, 2013

in millions	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short-term investments:				
Securities purchased under resale agreements		$ 311		$ 311
Trading account assets:				
U.S. Treasury, agencies and corporations		496		496
States and political subdivisions		46	$ 3	49
Collateralized mortgage obligations		23		23
Other mortgage-backed securities		80		80
Other securities	$ 5	41		46
Total trading account securities	5	686	3	694
Commercial loans		7		7
Total trading account assets	5	693	3	701
Securities available for sale:				
States and political subdivisions		48		48
Collateralized mortgage obligations		12,918		12,918
Other mortgage-backed securities		487		487
Other securities	43			43
Total securities available for sale	43	13,453		13,496
Other investments:				
Principal investments:				
Direct			191	191
Indirect			435	435
Total principal investments			626	626
Equity and mezzanine investments:				
Direct				
Indirect			39	39
Total equity and mezzanine investments			39	39
Total other investments			665	665
Derivative assets:				
Interest rate		1,499	27	1,526
Foreign exchange	57	14		71
Energy and commodity		115	5	120
Credit		2	5	7
Equity				
Derivative assets	57	1,630	37	1,724
Netting adjustments[(a)]				(1,115)
Total derivative assets	57	1,630	37	609
Accrued income and other assets	2	95		97
Total assets on a recurring basis at fair value	$ 107	$ 16,182	$ 705	$ 15,879
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 494		$ 494
Bank notes and other short-term borrowings:				
Short positions	$ 3	373		376
Derivative liabilities:				

Interest rate		1,027		1,027
Foreign exchange	54	14		68
Energy and commodity		113	$ 1	114
Credit		10	1	11
Equity				
Derivative liabilities	54	1,164	2	1,220
Netting adjustments[(a)]				(696)
Total derivative liabilities	54	1,164	2	524
Accrued expense and other liabilities		1		1
Total liabilities on a recurring basis at fair value	$ 57	$ 2,032	$ 2	$ 1,395

(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.

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
Total equity and mezzanine investments			41	41
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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March 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		$ 292		$ 292
Trading account assets:				
U.S. Treasury, agencies and corporations		336		336
States and political subdivisions		122		122
Collateralized mortgage obligations		23		23
Other mortgage-backed securities		96	$ 1	97
Other securities	$ 11	25		36
Total trading account securities	11	602	1	614
Commercial loans				
Total trading account assets	11	602	1	614
Securities available for sale:				
States and political subdivisions		62		62
Collateralized mortgage obligations		13,845		13,845
Other mortgage-backed securities		714		714
Other securities	12			12
Total securities available for sale	12	14,621		14,633
Other investments:				
Principal investments:				
Direct	18		226	244
Indirect			485	485
Total principal investments	18		711	729
Equity and mezzanine investments:				
Direct			15	15
Indirect			42	42
Total equity and mezzanine investments			57	57
Total other investments	18		768	786
Derivative assets:				
Interest rate		1,686	36	1,722
Foreign exchange	73	21		94
Energy and commodity		271		271
Credit		29	6	35
Equity		3		3
Derivative assets	73	2,010	42	2,125
Netting adjustments [(a)]				(1,295)
Total derivative assets	73	2,010	42	830
Accrued income and other assets	1	117		118
Total assets on a recurring basis at fair value	$ 115	$ 17,642	$ 811	$ 17,273
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 394		$ 394
Bank notes and other short-term borrowings:				
Short positions	$ 6	318		324

Derivative liabilities:								
Interest rate				1,213				1,213
Foreign exchange		64		20				84
Energy and commodity				266	$	1		267
Credit				33		1		34
Equity				3				3
Derivative liabilities		64		1,535		2		1,601
Netting adjustments [(a)]								(847)
Total derivative liabilities		64		1,535		2		754
Accrued expense and other liabilities				8				8
Total liabilities on a recurring basis at fair value	$	70	$	2,255	$	2	$	1,480

(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 months ended March 31, 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
March 31, 2013									
Trading account assets									
Other mortgage-backed securities		$ 4 (b)		$ (4)					
Other securities		1 (b)			$ (1)				$ 1 (b)
State and political subdivisions	$ 3							$ 3	
Other investments									
Principal investments									
Direct	191	(4) (c)	$ 4					191	(4) (c)
Indirect	436	12 (c)	6	(19)				435	4 (c)
Equity and mezzanine investments									
Direct									
Indirect	41				(2)			39	
Derivative instruments[a]									
Interest rate	19	(3) (d)		(1)		$ 14 (f)	$ (2)	27	
Energy and commodity	1	3 (d)						4	
Credit	4	(1) (d)			1			4	
March 31, 2012									
Trading account assets									
Other mortgage-backed securities	$ 35	$ 2 (b)		$ (32)			$ (4)	$ 1	
Other securities		3 (b)			$ (3)				$ 3 (b)
Other investments									
Principal investments									
Direct	225	1 (c)	$ 1	(1)				226	1 (c)
Indirect	473	23 (c)	10	(21)				485	19 (c)
Equity and mezzanine investments									
Direct	15							15	6 (c)
Indirect	36	1 (c)	3		(1)	$ 3		42	4 (c)