

KEYCORP /NEW/
Form 10-Q
October 31, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended September 30, 2013

Commission File Number 1-11302

Exact name of registrant as specified in its charter:

Ohio
State or other jurisdiction of

34-6542451
I.R.S. Employer

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incorporation or organization

Identification Number:

127 Public Square, Cleveland, Ohio
Address of principal executive offices:

44114-1306
Zip Code:

(216) 689-3000

Registrant's telephone number, including area code:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 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

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

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
Title of class

896,671,849 Shares
Outstanding at October 29, 2013

Table of Contents**KEYCORP**

TABLE OF CONTENTS

	Page Number
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	5
<u>Consolidated Balance Sheets September 30, 2013 (Unaudited), December 31, 2012, and September 30, 2012 (Unaudited)</u>	5
<u>Consolidated Statements of Income (Unaudited) Three and nine months ended September 30, 2013 and 2012</u>	6
<u>Consolidated Statements of Comprehensive Income (Unaudited) Three and nine months ended September 30, 2013 and 2012</u>	7
<u>Consolidated Statements of Changes in Equity (Unaudited) Nine months ended September 30, 2013 and 2012</u>	8
<u>Consolidated Statements of Cash Flows (Unaudited) Nine months ended September 30, 2013 and 2012</u>	9
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	10
<u>Note 1. Basis of Presentation</u>	10
<u>Note 2. Earnings Per Common Share</u>	14
<u>Note 3. Loans and Loans Held for Sale</u>	15
<u>Note 4. Asset Quality</u>	17
<u>Note 5. Fair Value Measurements</u>	32
<u>Note 6. Securities</u>	49
<u>Note 7. Derivatives and Hedging Activities</u>	53
<u>Note 8. Mortgage Servicing Assets</u>	61
<u>Note 9. Variable Interest Entities</u>	63
<u>Note 10. Income Taxes</u>	65
<u>Note 11. Acquisitions and Discontinued Operations</u>	66
<u>Note 12. Securities Financing Activities</u>	74
<u>Note 13. Employee Benefits</u>	76
<u>Note 14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries</u>	77
<u>Note 15. Contingent Liabilities and Guarantees</u>	78
<u>Note 16. Accumulated Other Comprehensive Income</u>	81
<u>Note 17. Shareholders Equity</u>	82

Table of Contents

	<u>Note 18. Line of Business Results</u>	83
	<u>Report of Independent Registered Public Accounting Firm</u>	87
Item 2.	<u>Management's Discussion & Analysis of Financial Condition & Results of Operations</u>	88
	<u>Introduction</u>	88
	<u>Terminology</u>	88
	<u>Selected financial data</u>	89
	<u>Forward-looking statements</u>	90
	<u>Economic overview</u>	91
	<u>Long-term financial goals</u>	92
	<u>Strategic developments</u>	93
	<u>Demographics</u>	93
	<u>Supervision and regulation</u>	95
	<u>Regulatory reform developments</u>	95
	<u>Enhanced prudential standards and early remediation requirements</u>	95
	<u>Debit card and interchange fees and routing</u>	95
	<u>New regulatory capital rules</u>	95
	<u>Liquidity capital ratios</u>	97
	<u>New assessments, fees and other charges</u>	97
	<u>Highlights of Our Performance</u>	97
	<u>Financial performance</u>	97
	<u>Results of Operations</u>	103
	<u>Net interest income</u>	103
	<u>Noninterest income</u>	106
	<u>Trust and investment services income</u>	108
	<u>Investment banking and debt placement fees</u>	108
	<u>Operating lease income and other leasing gains</u>	108
	<u>Cards and payments income</u>	108
	<u>Other income</u>	108
	<u>Noninterest expense</u>	109
	<u>Personnel</u>	109
	<u>Operating lease expense</u>	110
	<u>Intangible asset amortization</u>	110
	<u>Other expense</u>	110
	<u>Income taxes</u>	110
	<u>Line of Business Results</u>	111
	<u>Key Community Bank summary of operations</u>	111
	<u>Key Corporate Bank summary of operations</u>	112
	<u>Other Segments</u>	113
	<u>Financial Condition</u>	114
	<u>Loans and loans held for sale</u>	114
	<u>Commercial loan portfolio</u>	114
	<u>Commercial, financial and agricultural</u>	114
	<u>Commercial real estate loans</u>	115
	<u>Commercial lease financing</u>	116
	<u>Commercial loan modification and restructuring</u>	116
	<u>Extensions</u>	117
	<u>Guarantors</u>	118
	<u>Consumer loan portfolio</u>	118
	<u>Loans held for sale</u>	119
	<u>Loan sales</u>	119
	<u>Securities</u>	120

Table of Contents

	<u>Securities available-for-sale</u>	121
	<u>Held-to-maturity securities</u>	122
	<u>Other investments</u>	123
	<u>Deposits and other sources of funds</u>	123
	<u>Capital</u>	124
	<u>CCAR and capital actions</u>	124
	<u>Dividends</u>	124
	<u>Common shares outstanding</u>	124
	<u>Capital adequacy</u>	125
	<u>Regulatory capital rules</u>	126
	<u>Risk Management</u>	128
	<u>Overview</u>	128
	<u>Market risk management</u>	130
	<u>Trading market risk</u>	130
	<u>Management of trading risks</u>	130
	<u>Covered positions</u>	130
	<u>VaR and stressed VaR</u>	131
	<u>Internal capital adequacy</u>	132
	<u>Nontrading market risk</u>	132
	<u>Net interest income simulation analysis</u>	133
	<u>Economic value of equity modeling</u>	134
	<u>Management of interest rate exposure</u>	134
	<u>Liquidity risk management</u>	135
	<u>Governance structure</u>	135
	<u>Factors affecting liquidity</u>	135
	<u>Managing liquidity risk</u>	136
	<u>Long-term liquidity strategy</u>	136
	<u>Sources of liquidity</u>	136
	<u>Liquidity programs</u>	136
	<u>Liquidity for KeyCorp</u>	137
	<u>Our liquidity position and recent activity</u>	137
	<u>Credit risk management</u>	138
	<u>Credit policy, approval and evaluation</u>	138
	<u>Allowance for loan and lease losses</u>	139
	<u>Net loan charge-offs</u>	141
	<u>Nonperforming assets</u>	143
	<u>Operational risk management</u>	146
	<u>Critical Accounting Policies and Estimates</u>	146
	<u>European Sovereign Debt Exposure</u>	148
Item 3.	<u>Quantitative and Qualitative Disclosure about Market Risk</u>	149
Item 4.	<u>Controls and Procedures</u>	149
	<u>PART II. OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	149
Item 1A.	<u>Risk Factors</u>	149
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	150
Item 6.	<u>Exhibits</u>	150
	<u>Signature</u>	151
	<u>Exhibits</u>	

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

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Consolidated Balance Sheets**

<i>in millions, except per share data</i>	September 30, 2013 (Unaudited)	December 31, 2012	September 30, 2012 (Unaudited)
ASSETS			
Cash and due from banks	\$ 748	\$ 584	\$ 973
Short-term investments	3,535	3,940	2,208
Trading account assets	806	605	663
Securities available for sale	12,606	12,094	11,962
Held-to-maturity securities (fair value: \$4,730, \$3,992 and \$4,212)	4,835	3,931	4,153
Other investments	1,007	1,064	1,106
Loans, net of unearned income of \$827, \$957 and \$980	53,597	52,822	51,419
Less: Allowance for loan and lease losses	868	888	888
Net loans	52,729	51,934	50,531
Loans held for sale	699	599	628
Premises and equipment	890	965	942
Operating lease assets	293	288	290
Goodwill	979	979	979
Other intangible assets	137	171	182
Corporate-owned life insurance	3,384	3,333	3,309
Derivative assets	475	693	771
Accrued income and other assets (including \$24 of consolidated LIHTC guaranteed funds VIEs, see Note 9) ^(a)	2,747	2,774	2,853
Discontinued assets (including \$2,158 of consolidated education loan securitization trust VIEs (see Note 9) and \$148 of loans in portfolio at fair value) ^(a)	4,838	5,282	5,400
Total assets	\$ 90,708	\$ 89,236	\$ 86,950
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	\$ 33,132	\$ 32,380	\$ 30,573
Savings deposits	2,489	2,433	2,393
Certificates of deposit (\$100,000 or more)	2,698	2,879	3,226
Other time deposits	3,833	4,575	4,941
Total interest-bearing	42,152	42,267	41,133
Noninterest-bearing	25,778	23,319	22,486
Deposits in foreign office interest-bearing	605	407	569
Total deposits	68,535	65,993	64,188
Federal funds purchased and securities sold under repurchase agreements	1,455	1,609	1,746
Bank notes and other short-term borrowings	466	287	388
Derivative liabilities	450	584	657
Accrued expense and other liabilities	1,375	1,387	1,205
Long-term debt	6,154	6,847	6,119
Discontinued liabilities (including \$2,037 of consolidated education loan securitization trust VIEs at fair value, see Note 9) ^(a)	2,037	2,220	2,368

Total liabilities	80,472	78,927	76,671
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	4,029	4,126	4,118
Retained earnings	7,431	6,913	6,762
Treasury stock, at cost (119,148,654, 91,201,285 and 80,775,030)	(2,193)	(1,952)	(1,868)
Accumulated other comprehensive income (loss)	(369)	(124)	(69)
Key shareholders equity	10,206	10,271	10,251
Noncontrolling interests	30	38	28
Total equity	10,236	10,309	10,279
Total liabilities and equity	\$ 90,708	\$ 89,236	\$ 86,950

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

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents**Consolidated Statements of Income (Unaudited)**

<i>dollars in millions, except per share amounts</i>	Three months ended September 30, 2013		Nine months ended September 30, 2012	
	2013	2012	2013	2012
INTEREST INCOME				
Loans	\$ 532	\$ 538	\$ 1,619	\$ 1,592
Loans held for sale	5	5	14	15
Securities available for sale	76	93	236	314
Held-to-maturity securities	22	21	60	50
Trading account assets	5	4	15	15
Short-term investments	1	1	4	4
Other investments	6	9	23	27
Total interest income	647	671	1,971	2,017
INTEREST EXPENSE				
Deposits	37	60	124	208
Federal funds purchased and securities sold under repurchase agreements	1	1	2	3
Bank notes and other short-term borrowings	2	1	5	5
Long-term debt	29	37	98	138
Total interest expense	69	99	229	354
NET INTEREST INCOME	578	572	1,742	1,663
Provision (credit) for loan and lease losses	28	109	111	172
Net interest income (expense) after provision for loan and lease losses	550	463	1,631	1,491
NONINTEREST INCOME				
Trust and investment services income	100	94	295	280
Investment banking and debt placement fees	86	83	249	217
Service charges on deposit accounts	73	74	213	212
Operating lease income and other leasing gains	43	66	85	176
Corporate services income	44	39	132	127
Cards and payments income	43	37	122	97
Corporate-owned life insurance income	26	26	87	86
Consumer mortgage income	3	11	16	29
Net gains (losses) from principal investing	17	11	32	70
Other income ^(a)	24	77	82	123
Total noninterest income	459	518	1,313	1,417
NONINTEREST EXPENSE				
Personnel	414	399	1,211	1,148
Net occupancy	66	65	202	191
Computer processing	38	42	116	126
Business services and professional fees	37	48	109	136
Equipment	25	27	78	80
Operating lease expense	14	13	37	45
Marketing	16	18	33	48
FDIC assessment	7	7	23	23
Intangible asset amortization on credit cards	8	6	23	6
Other intangible asset amortization	4	3	11	5
Provision (credit) for losses on lending-related commitments	3	(8)	11	(2)
OREO expense, net	1	1	5	14

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Other expense	83	91	249	264
Total noninterest expense	716	712	2,108	2,084
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	293	269	836	824
Income taxes	59	51	201	178
INCOME (LOSS) FROM CONTINUING OPERATIONS	234	218	635	646
Income (loss) from discontinued operations, net of taxes of \$21, \$1, \$29, and \$9 (see Note 11)	37	3	45	16
NET INCOME (LOSS)	271	221	680	662
Less: Net income (loss) attributable to noncontrolling interests	(1)	2		7
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	\$ 272	\$ 219	\$ 680	\$ 655
Income (loss) from continuing operations attributable to Key common shareholders	\$ 229	\$ 211	\$ 618	\$ 623
Net income (loss) attributable to Key common shareholders	266	214	663	639
Per common share:				
Income (loss) from continuing operations attributable to Key common shareholders	\$.25	\$.23	\$.68	\$.66
Income (loss) from discontinued operations, net of taxes	.04		.05	.02
Net income (loss) attributable to Key common shareholders ^(b)	.29	.23	.73	.68
Per common share assuming dilution:				
Income (loss) from continuing operations attributable to Key common shareholders	\$.25	\$.22	\$.67	\$.66
Income (loss) from discontinued operations, net of taxes	.04		.05	.02
Net income (loss) attributable to Key common shareholders ^(b)	.29	.23	.72	.67
Cash dividends declared per common share	\$.055	\$.05	\$.16	\$.13
Weighted-average common shares outstanding (000)	901,904	936,223	911,918	943,378
Weighted-average common shares and potential common shares outstanding (000) ^(c)	928,854	940,764	917,579	947,582

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

(b) EPS may not foot due to rounding.

(c) Assumes conversion of stock options and/or Series A Preferred Stock, as applicable.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents**Consolidated Statements of Comprehensive Income (Unaudited)**

<i>in millions</i>	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss)	\$ 271	\$ 221	\$ 680	\$ 662
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$48), (\$17), (\$135) and (\$48)	(81)	(28)	(228)	(81)
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$6, \$12, (\$17) and \$17	10	20	(29)	28
Foreign currency translation adjustments, net of income taxes	2	9	(12)	5
Net pension and postretirement benefit costs, net of income taxes	18	2	24	7
Total other comprehensive income (loss), net of tax	(51)	3	(245)	(41)
Comprehensive income (loss)	220	224	435	621
Less: Comprehensive income attributable to noncontrolling interests	(1)	2		7
Comprehensive income (loss) attributable to Key	\$ 221	\$ 222	\$ 435	\$ 614

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

Consolidated Statements of Changes in Equity (Unaudited)

	Key Shareholders' Equity									
	Preferred	Common					Treasury	Accumulated	Other	Noncontrolling
	Shares	Shares	Preferred	Common	Capital	Retained	Stock,	Income	Interests	
<i>dollars in millions, except per share amounts</i>	(000)	(000)	Stock	Shares	Surplus	Earnings	at Cost	(Loss)		
BALANCE AT DECEMBER 31, 2011	2,905	953,008	\$ 291	\$ 1,017	\$ 4,194	\$ 6,246	\$ (1,815)	\$ (28)	\$ 17	
Net income (loss)						655			7	
Other comprehensive income (loss):										
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$48)								(81)		
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$17								28		
Foreign currency translation adjustments, net of income taxes								5		
Net pension and postretirement benefit costs, net of income taxes								7		
Deferred compensation					10					
Cash dividends declared on common shares (\$.13 per share)						(123)				
Cash dividends declared on Noncumulative Series A Preferred Stock (\$5.8125 per share)						(16)				
Common shares repurchased		(20,107)					(163)			
Common shares reissued (returned) for stock options and other employee benefit plans		3,294			(86)		110			
Net contribution from (distribution to) noncontrolling interests									4	
BALANCE AT SEPTEMBER 30, 2012	2,905	936,195	\$ 291	\$ 1,017	\$ 4,118	\$ 6,762	\$ (1,868)	\$ (69)	\$ 28	
BALANCE AT DECEMBER 31, 2012	2,905	925,769	\$ 291	\$ 1,017	\$ 4,126	\$ 6,913	\$ (1,952)	\$ (124)	\$ 38	
Net income (loss)						680				
Other comprehensive income (loss):										
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$135)								(228)		
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$17)								(29)		
Foreign currency translation adjustments, net of income taxes								(12)		
Net pension and postretirement benefit costs, net of income taxes								24		
Deferred compensation					3					
Cash dividends declared on common shares (\$.16 per share)						(145)				
Cash dividends declared on Noncumulative Series A Preferred Stock (\$5.8125 per share)						(17)				
Common shares repurchased		(33,940)					(375)			
Common shares reissued (returned) for stock options and other employee benefit plans		5,992			(100)		134			
Net contribution from (distribution to) noncontrolling interests									(8)	
BALANCE AT SEPTEMBER 30, 2013	2,905	897,821	\$ 291	\$ 1,017	\$ 4,029	\$ 7,431	\$ (2,193)	\$ (369)	\$ 30	

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents**Consolidated Statements of Cash Flows (Unaudited)**

<i>in millions</i>	Nine months ended September 30,	
	2013	2012
OPERATING ACTIVITIES		
Net income (loss)	\$ 680	\$ 662
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision (credit) for loan and lease losses	111	172
Provision (credit) for losses on lending-related commitments	11	(2)
Provision (credit) for losses on LIHTC guaranteed funds	4	
Depreciation, amortization and accretion expense, net	147	162
Stock-based compensation expense	27	38
FDIC (payments) net of FDIC expense	296	19
Deferred income taxes (benefit)	(4)	36
Proceeds from sales of loans held for sale	3,821	3,737
Originations of loans held for sale, net of repayments	(3,779)	(3,507)
Net losses (gains) on sales of loans held for sale	(91)	(93)
Net losses (gains) from principal investing	(32)	(70)
Net losses (gains) and writedown on OREO	5	12
Net losses (gains) on leased equipment	(36)	(109)
Net losses (gains) on sales of fixed assets	9	
Net decrease (increase) in trading account assets	(201)	(40)
Other operating activities, net	52	(369)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,020	648
INVESTING ACTIVITIES		
Cash received (used) in acquisitions, net of cash acquired	817	866
Proceeds from sale of Victory	72	
Gain on sale of Victory	(92)	
Net decrease (increase) in short-term investments	405	1,311
Purchases of securities available for sale	(4,628)	(232)
Proceeds from sales of securities available for sale	29	1
Proceeds from prepayments and maturities of securities available for sale	3,725	4,159
Proceeds from prepayments and maturities of held-to-maturity securities	667	437
Purchases of held-to-maturity securities	(1,572)	(2,481)
Purchases of other investments	(30)	(48)
Proceeds from sales of other investments	39	17
Proceeds from prepayments and maturities of other investments	82	134
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	(1,077)	(1,342)
Proceeds from sales of portfolio loans	150	207
Purchases of premises and equipment	(60)	(101)
Proceeds from sales of premises and equipment	8	1
Proceeds from sales of other real estate owned	19	55
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(1,446)	2,984
FINANCING ACTIVITIES		
Net increase (decrease) in deposits, excluding acquisitions	1,605	184
Net increase (decrease) in short-term borrowings	26	86
Net proceeds from issuance of long-term debt	1,013	59
Payments on long-term debt	(1,540)	(3,381)
Repurchase of Common Shares	(375)	(163)
Net proceeds from reissuance of Common Shares	22	2
Tax benefits in excess of reorganized compensation costs for share-based payment	1	
Cash dividends paid	(162)	(139)

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NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	590	(3,352)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	164	280
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	584	693
CASH AND DUE FROM BANKS AT END OF PERIOD	\$ 748	\$ 973
Additional disclosures relative to cash flows:		
Interest paid	\$ 271	\$ 302
Income taxes paid (refunded)	114	39
Noncash items:		
Assets acquired	\$ 41	\$ 1,194
Liabilities assumed		2,059
Loans transferred to portfolio from held for sale	2	41
Loans transferred to held for sale from portfolio	53	80
Loans transferred to other real estate owned	16	32
See Notes to Consolidated Financial Statements (Unaudited).		

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

As used in these Notes, references to Key, we, our, us and similar terms refer to the consolidated entity consisting of KeyCorp and its subsidiaries. KeyCorp refers solely to the parent holding company, and KeyBank refers to KeyCorp's subsidiary, KeyBank National Association.

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

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

Table of Contents

ABO: Accumulated benefit obligation.
 AICPA: American Institute of Certified Public Accountants.
 ALCO: Asset/Liability Management Committee.
 ALLL: Allowance for loan and lease losses.
 A/LM: Asset/liability management.
 AOCI: Accumulated other comprehensive income (loss).
 APBO: Accumulated postretirement benefit obligation.
 Austin: Austin Capital Management, Ltd.
 BHCA: Bank Holding Company Act of 1956, as amended.
 BHCs: Bank holding companies.
 CCAR: Comprehensive Capital Analysis and Review.
 CFPB: Bureau of Consumer Financial Protection.
 CFTC: Commodities Futures Trading Commission.
 CMBS: Commercial mortgage-backed securities.
 CMO: Collateralized mortgage obligation.
 Common Shares: Common Shares, \$1 par value.
 CPP: Capital Purchase Program of the U.S. Treasury.
 DIF: Deposit Insurance Fund of the FDIC.
 Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
 ERISA: Employee Retirement Income Security Act of 1974.
 ERM: Enterprise risk management.
 EVE: Economic value of equity.
 FASB: Financial Accounting Standards Board.
 FDIA: Federal Deposit Insurance Act, as amended.
 FDIC: Federal Deposit Insurance Corporation.
 Federal Reserve: Board of Governors of the Federal Reserve System.
 FHFA: Federal Housing Finance Agency.
 FHLMC: Federal Home Loan Mortgage Corporation.
 FINRA: Financial Industry Regulatory Authority.
 FNMA: Federal National Mortgage Association.
 FOMC: Federal Open Market Committee of the Federal Reserve Board.
 FSOC: Financial Stability Oversight Council.
 FVA: Fair value of pension plan assets.
 GAAP: U.S. generally accepted accounting principles.
 GNMA: Government National Mortgage Association.
 HUD: U.S. Department of Housing and Urban Development.
 IRS: Internal Revenue Service.
 ISDA: International Swaps and Derivatives Association.
 KAHC: Key Affordable Housing Corporation.
 LIBOR: London Interbank Offered Rate.

LIHTC: Low-income housing tax credit.
 LILO: Lease in, lease out transaction.
 Moody's: Moody's Investor Services, Inc.
 MSRs: Mortgage servicing rights.
 N/A: Not applicable.
 NASDAQ: The NASDAQ Stock Market LLC.
 N/M: Not meaningful.
 NOW: Negotiable Order of Withdrawal.
 NPR: Notice of proposed rulemaking.
 NYSE: New York Stock Exchange.
 OCC: Office of the Comptroller of the Currency.
 OCI: Other comprehensive income (loss).
 OFR: Office of Financial Research of the U.S. Department of Treasury.
 OREO: Other real estate owned.
 OTTI: Other-than-temporary impairment.
 QSPE: Qualifying special purpose entity.
 PBO: Projected benefit obligation.
 PCCR: Purchased credit card relationship.
 PCI: Purchased credit impaired.
 S&P: Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc.
 SCAP: Supervisory Capital Assessment Program administered by the Federal Reserve.
 SEC: U.S. Securities & Exchange Commission.
 Series A Preferred Stock: KeyCorp's 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
 SIFIs: Systemically important financial companies, including BHCs with total consolidated assets of at least \$50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.
 SILO: Sale in, lease out transaction.
 SPE: Special purpose entity.
 TDR: Troubled debt restructuring.
 TE: Taxable equivalent.
 U.S. Treasury: United States Department of the Treasury.
 VaR: Value at risk.
 VEBA: Voluntary Employee Beneficiary Association.
 Victory: Victory Capital Management and/or Victory Capital Advisors.
 VIE: Variable interest entity.
 XBRL: eXtensible Business Reporting Language.

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

The consolidated financial statements include any voting rights entities in which we have a controlling financial interest. In accordance with the applicable accounting guidance for consolidations, we consolidate a VIE if we have: (i) a variable interest in the entity; (ii) the power to direct activities of the VIE that most significantly impact the entity's economic performance; and (iii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE (i.e., we are considered to be the primary beneficiary). Variable interests can include equity interests, subordinated debt, derivative contracts, leases, service agreements, guarantees, standby letters of credit, loan commitments, and other contracts, agreements and financial instruments. See Note 9 (Variable Interest Entities) for information on our involvement with VIEs.

Table of Contents

We use the equity method to account for unconsolidated investments in voting rights entities or VIEs if we have significant influence over the entity's operating and financing decisions (usually defined as a voting or economic interest of 20% to 50%, but not controlling). Unconsolidated investments in voting rights entities or VIEs in which we have a voting or economic interest of less than 20% generally are carried at cost. Investments held by our registered broker-dealer and investment company subsidiaries (primarily principal investments) are carried at fair value.

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2012 Form 10-K.

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to all shareholders and other financial statement users, or filed with the SEC.

Offsetting Derivative Positions

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

Accounting Guidance Adopted in 2013

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

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

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).

Accounting Guidance Pending Adoption at September 30, 2013

Presentation of unrecognized tax benefits. In July 2013, the FASB issued new accounting guidance that requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if

Table of Contents

certain criteria are met. This accounting guidance will be applied prospectively to unrecognized tax benefits that exist at the effective date. It will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (effective January 1, 2014, for us). Early adoption and/or retrospective application are permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

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

Reporting of cumulative translation adjustments upon the derecognition of certain investments. In March 2013, the FASB issued new accounting guidance that addresses the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. This accounting guidance will be effective prospectively for reporting periods beginning after December 15, 2013 (effective January 1, 2014, for us). The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

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

Basic earnings per share is the amount of earnings (adjusted for dividends declared on our preferred stock) available to each common share outstanding during the reporting periods. Diluted earnings per share is the amount of earnings available to each common share outstanding during the reporting periods adjusted to include the effects of potentially dilutive common shares. Potentially dilutive common shares include incremental shares issued for the conversion of our convertible Series A Preferred Stock, stock options, and other stock-based awards. Potentially dilutive common shares are excluded from the computation of diluted earnings per share in the periods where the effect would be antidilutive. For diluted earnings per share, net income available to common shareholders can be affected by the conversion of our convertible Series A Preferred Stock. Where the effect of this conversion would be dilutive, net income available to common shareholders is adjusted by the amount of preferred dividends associated with our Series A Preferred Stock. For the three months ended September 30, 2013, weighted-average common shares and potential common shares outstanding included 20.6 million shares associated with the conversion of our Series A Preferred Stock and 6.4 million shares associated with common share options and other stock awards.

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

<i>dollars in millions, except per share amounts</i>	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
EARNINGS				
Income (loss) from continuing operations	\$ 234	\$ 218	\$ 635	\$ 646
Less: Net income (loss) attributable to noncontrolling interests	(1)	2		7
Income (loss) from continuing operations attributable to Key	235	216	635	639
Less: Dividends on Series A Preferred Stock	6	5	17	16
Income (loss) from continuing operations attributable to Key common shareholders	229	211	618	623
Income (loss) from discontinued operations, net of taxes ^(a)	37	3	45	16
Net income (loss) attributable to Key common shareholders	\$ 266	\$ 214	\$ 663	\$ 639
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	901,904	936,223	911,918	943,378
Effect of dilutive convertible preferred stock, common share options and other stock awards (000)	26,950	4,541	5,661	4,204
Weighted-average common shares and potential common shares outstanding (000)	928,854	940,764	917,579	947,582
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	\$.25	\$.23	\$.68	\$.66
Income (loss) from discontinued operations, net of taxes ^(a)	.04		.05	.02
Net income (loss) attributable to Key common shareholders ^(b)	.29	.23	.73	.68
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	\$.25	\$.22	\$.67	\$.66
Income (loss) from discontinued operations, net of taxes ^(a)	.04		.05	.02
Net income (loss) attributable to Key common shareholders assuming dilution ^(b)	.29	.23	.72	.67

(a)

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

- (b) EPS may not foot due to rounding.

Table of Contents**3. Loans and Loans Held for Sale**

Our loans by category are summarized as follows:

<i>in millions</i>	September 30, 2013	December 31, 2012	September 30, 2012
Commercial, financial and agricultural ^(a)	\$ 24,317	\$ 23,242	\$ 21,979
Commercial real estate:			
Commercial mortgage	7,544	7,720	7,529
Construction	1,058	1,003	1,067
Total commercial real estate loans	8,602	8,723	8,596
Commercial lease financing	4,550	4,915	4,960
Total commercial loans	37,469	36,880	35,535
Residential prime loans:			
Real estate residential mortgage	2,198	2,174	2,138
Home equity:			
Key Community Bank	10,285	9,816	9,768
Other	353	423	409 ^(d)
Total home equity loans	10,638	10,239	10,177
Total residential prime loans	12,836	12,413	12,315
Consumer other Key Community Bank	1,440	1,349	1,313
Credit cards	698	729	710
Consumer other:			
Marine	1,083	1,358	1,448
Other	71	93	98
Total consumer other	1,154	1,451	1,546
Total consumer loans	16,128	15,942	15,884
Total loans ^{(b)(c)}	\$ 53,597	\$ 52,822	\$ 51,419

(a) September 30, 2013, December 31, 2012, and September 30, 2012 loan balances include \$96 million, \$90 million, and \$88 million of commercial credit card balances, respectively.

(b) Excluded at September 30, 2013, December 31, 2012, and September 30, 2012, are loans in the amount of \$4.7 billion, \$5.2 billion, and \$5.3 billion, respectively, related to the discontinued operations of the education lending business.

(c) September 30, 2013 loan balance includes purchased loans of \$176 million of which \$18 million were PCI loans. December 31, 2012 loan balance includes purchased loans of \$217 million of which \$23 million were PCI loans. September 30, 2012 loan balance includes purchased loans of \$231 million of which \$25 million were PCI loans.

(d) This loan category was impacted by \$45 million in net loan charge-offs taken during the third quarter of 2012 related to updated regulatory guidance.

Our loans held for sale are summarized as follows:

<i>in millions</i>	September 30, 2013	December 31, 2012	September 30, 2012
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Commercial, financial and agricultural	\$	68	\$	29	\$	13
Real estate commercial mortgage		608		477		484
Real estate construction						10
Commercial lease financing				8		4
Real estate residential mortgage		23		85		117
Total loans held for sale	\$	699	\$	599	\$	628

Table of Contents

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

<i>in millions</i>	September 30, 2013	December 31, 2012	September 30, 2012
Balance at beginning of the period	\$ 402	\$ 628	\$ 656
New originations	1,467	1,686	1,280
Transfers from held to maturity, net	15	38	13
Loan sales	(1,181)	(1,747)	(1,311)
Loan draws (payments), net	(4)	(4)	(9)
Transfers to OREO / valuation adjustments		(2)	(1)
Balance at end of period	\$ 699	\$ 599	\$ 628

Table of Contents**4. Asset Quality**

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

Our nonperforming assets and past due loans were as follows:

<i>in millions</i>	September 30, 2013	December 31, 2012	September 30, 2012
Total nonperforming loans ^{(a), (b)}	\$ 541	\$ 674	\$ 653
Nonperforming loans held for sale	13	25	19
OREO	15	22	29
Other nonperforming assets	10	14	17
Total nonperforming assets	\$ 579	\$ 735	\$ 718
Nonperforming assets from discontinued operations – education lending ^(f)	\$ 23	\$ 20	\$ 22
Restructured loans included in nonperforming loans ^(a)	\$ 228	\$ 249	\$ 217
Restructured loans with an allocated specific allowance ^(d)	104	114	78
Specifically allocated allowance for restructured loans ^(e)	46	33	31
Accruing loans past due 90 days or more	\$ 90	\$ 78	\$ 89
Accruing loans past due 30 through 89 days	288	424	354

- (a) December 31, 2012 and September 30, 2012 loan balance includes \$72 million and \$38 million of current, paying as originally agreed, secured loans respectively, 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) September 30, 2013, December 31, 2012 and September 30, 2012 loan balances exclude \$18 million, \$23 million and \$25 million of PCI loans, respectively.
- (c) Includes approximately \$11 million, \$3 million and \$3 million of restructured loans at September 30, 2013, December 31, 2012 and September 30, 2012, respectively. 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 September 30, 2013, the outstanding unpaid principal balance and carrying value of all PCI loans was \$25 million and \$18 million, respectively. Changes in the accretable yield during 2013 included accretion of \$1 million and net reclassifications of \$1 million, resulting in an ending balance of \$5 million at September 30, 2013.

At September 30, 2013, the approximate carrying amount of our commercial nonperforming loans outstanding represented 61% of their original contractual amount, total nonperforming loans outstanding represented 74% of their original contractual amount owed, and nonperforming assets in total were carried at 72% of their original contractual amount.

At September 30, 2013, our twenty largest nonperforming loans totaled \$119 million, representing 22% of total loans on nonperforming status from continuing operations. At September 30, 2012, the twenty largest nonperforming loans totaled \$202 million, representing 31% of total loans on nonperforming status.

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Nonperforming loans and loans held for sale reduced expected interest income by \$18 million for the nine months ended September 30, 2013, and \$25 million for the year ended December 31, 2012.

Table of Contents

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

September 30, 2013	Recorded	Unpaid	Specific	Average
<i>in millions</i>	Investment ^(a)	Principal	Allowance	Recorded
		Balance ^(b)		Investment
With no related allowance recorded:				
Commercial, financial and agricultural	\$ 58	\$ 116		\$ 74
Commercial real estate:				
Commercial mortgage	43	80		66
Construction	41	124		45
Total commercial real estate loans	84	204		111
Total commercial loans with no related allowance recorded	142	320		185
Real estate residential mortgage	16	16		16
Home equity:				
Key Community Bank	69	69		69
Other	2	2		2
Total home equity loans	71	71		71
Consumer other:				
Marine	3	3		3
Total consumer other	3	3		3
Total consumer loans	90	90		90
Total loans with no related allowance recorded	232	410		275
With an allowance recorded:				
Commercial, financial and agricultural	50	51	\$ 17	36
Commercial real estate:				
Commercial mortgage	3	3	1	4
Construction	3	13		2
Total commercial real estate loans	6	16	1	6
Total commercial loans with an allowance recorded	56	67	18	42
Real estate residential mortgage	20	20	6	20
Home equity:				
Key Community Bank	33	33	10	32
Other	11	11	2	10
Total home equity loans	44	44	12	42
Consumer other Key Community Bank	3	3		3
Credit cards	6	6	1	5
Consumer other:				
Marine	49	49	10	50
Other	1	1		1

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Total consumer other	50	50	10	51
Total consumer loans	123	123	29	121
Total loans with an allowance recorded	179	190	47	163
Total	\$ 411	\$ 600	\$ 47	\$ 438

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

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

Table of Contents

December 31, 2012

<i>in millions</i>	Recorded Investment ^(a)	Unpaid Principal Balance ^(b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	\$ 32	\$ 64		\$ 60
Commercial real estate:				
Commercial mortgage	89	142		95
Construction	48	182		39
Total commercial real estate loans	137	324		134
Total commercial loans with no related allowance recorded	169	388		194
Real estate residential mortgage	21	21		10
Home equity:				
Key Community Bank	65	65		33
Other	3	3		1
Total home equity loans	68	68		34
Total consumer loans	89	89		44
Total loans with no related allowance recorded	258	477		238
With an allowance recorded:				
Commercial, financial and agricultural	33	42	\$ 12	48
Commercial real estate:				
Commercial mortgage	7	7	1	51
Construction				6
Total commercial real estate loans	7	7	1	57
Total commercial loans with an allowance recorded	40	49	13	105
Real estate residential mortgage	17	17	1	8
Home equity:				
Key Community Bank	22	22	11	11
Other	9	9	1	5
Total home equity loans	31	31	12	16
Consumer other Key Community Bank	2	2	2	1
Credit cards	2	2		1
Consumer other:				
Marine	60	60	7	30
Other	1	1		1
Total consumer other	61	61	7	31
Total consumer loans	113	113	22	57
Total loans with an allowance recorded	153	162	35	162
Total	\$ 411	\$ 639	\$ 35	\$ 400

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

Table of Contents

September 30, 2012				
<i>in millions</i>	Recorded Investment ^(a)	Unpaid Principal Balance ^(b)	Specific Allowance	Average Recorded Investment
With no related allowance recorded:				
Commercial, financial and agricultural	\$ 57	\$ 118		\$ 58
Commercial real estate:				
Commercial mortgage	106	182		109
Construction	42	203		47
Total commercial real estate loans	148	385		156
Total commercial loans with no related allowance recorded	205	503		214
Real estate residential mortgage				1
Home equity:				
Key Community Bank	45	45		23
Other	2	2		1
Total home equity loans	47	47		24
Consumer other Key Community Bank	1	1		1
Consumer other:				
Marine	4	4		2
Total consumer other	4	4		2
Total consumer loans	52	52		28
Total loans with no related allowance recorded	257	555		242
With an allowance recorded:				
Commercial, financial and agricultural	35	45	\$ 12	39
Commercial real estate:				
Commercial mortgage	31	32	7	44
Construction				2
Total commercial real estate loans	31	32	7	46
Total commercial loans with an allowance recorded	66	77	19	85
Real estate residential mortgage	18	18	1	17
Home equity:				
Key Community Bank	20	20	10	16
Other	8	8	1	7
Total home equity loans	28	28	11	23
Consumer other Key Community Bank	2	2	1	2
Consumer other:				
Marine	56	56	7	53
Other	1	1		1
Total consumer other	57	57	7	54
Total consumer loans	105	105	20	96

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Total loans with an allowance recorded	171	182	39	181
Total	\$ 428	\$ 737	\$ 39	\$ 423

- (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 nine months ended September 30, 2013, and 2012, interest income recognized on the outstanding balances of accruing impaired loans totaled \$5 million and \$4 million, respectively.

At September 30, 2013, aggregate restructured loans (accrual, nonaccrual and held-for-sale loans) totaled \$349 million, compared to \$320 million at December 31, 2012, and \$323 million at September 30, 2012. We added \$143 million in restructured loans during the first nine months of 2013, which were offset by \$114 million in payments and charge-offs.

Table of Contents

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

September 30, 2013		Number of loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<i>dollars in millions</i>				
LOAN TYPE				
Nonperforming:				
Commercial, financial and agricultural		39	\$ 96	\$ 63
Commercial real estate:				
Real estate commercial mortgage		14	51	17
Real estate construction		6	19	4
Total commercial real estate loans		20	70	21
Total commercial loans		59	166	84
Real estate residential mortgage		401	24	24
Home equity:				
Key Community Bank		1,677	89	85
Other		237	6	6
Total home equity loans		1,914	95	91
Consumer other Key Community Bank		40	2	1
Credit cards		689	5	5
Consumer other:				
Marine		346	42	22
Other		46	1	1
Total consumer other		392	43	23
Total consumer loans		3,436	169	144
Total nonperforming TDRs		3,495	335	228
Prior-year accruing ^(a)				
Commercial, financial and agricultural		68	9	4
Commercial real estate:				
Real estate commercial mortgage		3	17	12
Real estate construction		1	23	35
Total commercial real estate loans		4	40	47
Total commercial loans		72	49	51
Real estate residential mortgage		118	13	13
Home equity:				
Key Community Bank		162	18	17
Other		214	6	6
Total home equity loans		376	24	23
Consumer other Key Community Bank		32	1	1
Credit cards		267	2	2
Consumer other:				
Marine		276	32	30
Other		56	1	1

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Total consumer other	332	33	31
Total consumer loans	1,125	73	70
Total prior-year accruing TDRs	1,197	122	121
Total TDRs	4,692	\$ 457	\$ 349

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

Table of Contents

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

December 31, 2012	Number of loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<i>dollars in millions</i>			
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	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

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Total consumer loans	437		50		50
Total prior-year accruing TDRs	563		84		71
Total TDRs	3,657	\$	434	\$	320

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

Table of Contents

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

September 30, 2012		Number of loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
<i>dollars in millions</i>				
LOAN TYPE				
Nonperforming:				
Commercial, financial and agricultural		91	\$ 107	\$ 54
Commercial real estate:				
Real estate commercial mortgage		18	47	29
Real estate construction		8	53	30
Total commercial real estate loans		26	100	59
Total commercial loans		117	207	113
Real estate residential mortgage		70	7	7
Home equity:				
Key Community Bank		1,804	89	58
Other		486	11	7
Total home equity loans		2,290	100	65
Consumer other Key Community Bank		125	2	2
Consumer other:				
Marine		491	33	28
Other		91	2	2
Total consumer other		582	35	30
Total consumer loans		3,067	144	104
Total nonperforming TDRs		3,184	351	217
Prior-year accruing ^(a)				
Commercial, financial and agricultural		152	15	7
Commercial real estate:				
Real estate commercial mortgage		7	71	45
Real estate construction		1	15	
Total commercial real estate loans		8	86	45
Total commercial loans		160	101	52
Real estate residential mortgage		108	11	11
Home equity:				
Key Community Bank		86	6	6
Other		95	3	3
Total home equity loans		181	9	9
Consumer other Key Community Bank		20		
Consumer other:				
Marine		126	32	32
Other		51	2	2
Total consumer other		177	34	34

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Total consumer loans	486		54		54
Total prior-year accruing TDRs	646		155		106
Total TDRs	3,830	\$	506	\$	323

(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 138 consumer loan TDRs with a combined recorded investment of \$7 million that have experienced payment defaults during the three months ended September 30, 2013 compared to 127 consumer TDRs with a combined recorded investment of \$5 million during the three months ended June 30, 2013 from modifications resulting in TDR status during 2012. There were no significant payment defaults during the first nine months of 2013 arising from commercial loans that were designated as TDRs during 2012.

Table of Contents

Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our client's financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal and other modifications. Other loan term modifications for consumer TDRs include concessions determined to have been made as defined in updated regulatory guidance issued in the third quarter of 2012.

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

<i>dollars in millions</i>	September 30, 2013	December 31, 2012	September 30, 2012
Commercial loans:			
Interest rate reduction	\$ 104	\$ 104	\$ 145
Forgiveness of principal	5	7	7
Other modification of loan terms	26	7	14
Total	\$ 135	\$ 118	\$ 166
Consumer loans:			
Interest rate reduction	\$ 110	\$ 122	\$ 92
Forgiveness of principal	5	6	7
Other modification of loan terms	99	74	58
Total	\$ 214	\$ 202	\$ 157
Total commercial and consumer TDRs^(a)	\$ 349	\$ 320	\$ 323
Total loans	53,597	52,822	51,419

(a) Commitments outstanding to lend additional funds to borrowers whose terms have been modified in TDRs are \$26 million, \$32 million, and \$47 million at September 30, 2013, December 31, 2012, and September 30, 2012, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans on page 120 of our 2012 Form 10-K. Pursuant to regulatory guidance issued in January 2012, the above-mentioned policy for nonperforming loans was revised effective for the second quarter of 2012. Beginning in the second quarter of 2012, any second lien home equity loan with an associated first lien that is 120 days or more past due or in foreclosure or for which the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan. This policy was implemented prospectively, and, therefore, prior periods were not restated or represented. As of September 30, 2013, in order to be consistent with other unsecured product treatment, the credit card loans nonaccrual policy was revised from 90 day past due status to placement on nonaccrual (and charge off) at 180 days past due.

At September 30, 2013, approximately \$52.7 billion, or 98.3%, of our total loans are current. At September 30, 2013, total past due loans and nonperforming loans of \$919 million represent approximately 1.7% of total loans.

Table of Contents

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

September 30, 2013			30-59	60-89	90 and		Total Past	Purchased	Total
<i>in millions</i>		Current	Days Past	Days Past	Days Past	Nonperforming	Due and	Credit	Loans
LOAN TYPE			Due	Due	Greater	Loans	Nonperforming	Impaired	Loans
Commercial, financial and agricultural		\$ 24,161	\$ 33	\$ 9	\$ 12	\$ 102	\$ 156		\$ 24,317
Commercial real estate:									
Commercial mortgage		7,429	22	2	31	58	113	\$ 2	7,544
Construction		1,038	3			17	20		1,058
Total commercial real estate loans									
		8,467	25	2	31	75	133	2	8,602
Commercial lease financing		4,472	41	7	8	22	78		4,550
Total commercial loans									
		\$ 37,100	\$ 99	\$ 18	\$ 51	\$ 199	\$ 367	\$ 2	\$ 37,469
Real estate residential mortgage									
		\$ 2,045	\$ 22	\$ 9	\$ 10	\$ 98	\$ 139	\$ 14	\$ 2,198
Home equity:									
Key Community Bank		9,994	50	29	12	198	289	2	10,285
Other		327	8	3	2	13	26		353
Total home equity loans									
		10,321	58	32	14	211	315	2	10,638
Consumer other Key Community Bank		1,419	8	5	6	2	21		1,440
Credit cards		675	7	4	8	4	23		698
Consumer other:									
Marine		1,034	17	6	1	25	49		1,083
Other		66	2	1		2	5		71
Total consumer other									
		1,100	19	7	1	27	54		1,154
Total consumer loans									
		\$ 15,560	\$ 114	\$ 57	\$ 39	\$ 342	\$ 552	\$ 16	\$ 16,128
Total loans									
		\$ 52,660	\$ 213	\$ 75	\$ 90	\$ 541	\$ 919	\$ 18	\$ 53,597

December 31, 2012			30-59	60-89	90 and		Total Past	Purchased	Total
<i>in millions</i>		Current	Days Past	Days Past	Days Past	Nonperforming	Due and	Credit	Loans
LOAN TYPE			Due	Due	Greater	Loans (a)	Nonperforming	Impaired	Loans
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

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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.

Table of Contents

September 30, 2012	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
<i>in millions</i>								
LOAN TYPE								
Commercial, financial and agricultural	\$ 21,766	\$ 46	\$ 19	\$ 15	\$ 132	\$ 212	\$ 1	\$ 21,979
Commercial real estate:								
Commercial mortgage	7,344	19	3	26	134	182	3	7,529
Construction	993	5	3	13	53	74		1,067
Total commercial real estate loans	8,337	24	6	39	187	256	3	8,596
Commercial lease financing	4,881	48	11	2	18	79		4,960
Total commercial loans	\$ 34,984	\$ 118	\$ 36	\$ 56	\$ 337	\$ 547	\$ 4	\$ 35,535
Real estate residential mortgage	\$ 1,997	\$ 22	\$ 13	\$ 6	\$ 83	\$ 124	\$ 17	\$ 2,138
Home equity:								
Key Community Bank	9,492	57	30	15	171	273	3	9,768
Other	374	9	5	3	18	35		409
Total home equity loans	9,866	66	35	18	189	308	3	10,177
Consumer other Key Community Bank	1,290	9	4	6	3	22	1	1,313
Credit cards	692	6	4		8	18		710
Consumer other:								
Marine	1,377	29	9	2	31	71		1,448
Other	92	2	1	1	2	6		98
Total consumer other	1,469	31	10	3	33	77		1,546
Total consumer loans	\$ 15,314	\$ 134	\$ 66	\$ 33	\$ 316	\$ 549	\$ 21	\$ 15,884
Total loans	\$ 50,298	\$ 252	\$ 102	\$ 89	\$ 653	\$ 1,096	\$ 25	\$ 51,419

(a) Includes \$38 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.

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.

Table of Contents

Credit quality indicators for our commercial and consumer loan portfolios, excluding \$18 million of PCI loans at September 30, 2013, based on bond rating, regulatory classification and payment activity as of September 30, 2013, and 2012 are as follows:

Commercial Credit Exposure**Credit Risk Profile by Creditworthiness Category ^(a)**

September 30,

in millions

RATING ^{(b) (c)}	Commercial, financial and agricultural		RE	Commercial	RE	Construction	Commercial Lease		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
AAA AA	\$ 292	\$ 166		\$ 1	\$ 1	\$ 1	\$ 454	\$ 465	\$ 747	\$ 633
A	774	755	\$ 73	63	1	1	866	1,107	1,714	1,926
BBB BB	21,837	19,229	6,867	6,137	879	759	3,021	3,087	32,604	29,212
B	487	940	294	585	26	38	133	188	940	1,751
CCC C	927	888	308	740	151	268	76	113	1,462	2,009
Total	\$ 24,317	\$ 21,978	\$ 7,542	\$ 7,526	\$ 1,058	\$ 1,067	\$ 4,550	\$ 4,960	\$ 37,467	\$ 35,531

(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)}**

September 30,

in millions

GRADE	Residential 2013	Prime 2012
Pass	\$ 12,487	\$ 11,999
Substandard	333	296
Total	\$ 12,820	\$ 12,295

Credit Risk Profile Based on Payment Activity ^{(a) (b)}

September 30,

in millions

	Consumer	Key Community	Credit cards		Consumer	Marine	Consumer	Other	Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Performing	\$ 1,438	\$ 1,309	\$ 694	\$ 702	\$ 1,058	\$ 1,417	\$ 69	\$ 96	\$ 3,259	\$ 3,524
Nonperforming	2	3	4	8	25	31	2	2	33	44

Total	\$ 1,440	\$ 1,312	\$ 698	\$ 710	\$ 1,083	\$ 1,448	\$ 71	\$ 98	\$ 3,292	\$ 3,568
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- (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 September 30, 2013, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

Table of Contents

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.

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 September 30, 2013, the ALLL was \$868 million, or 1.62% of loans, compared to \$888 million, or 1.73% of loans, at September 30, 2012. At September 30, 2013, the ALLL was 160.4% of nonperforming loans, compared to 136.0% at September 30, 2012.

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

<i>in millions</i>	Three months ended September 30,		Three months ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period continuing operations	\$ 876	\$ 888	\$ 888	\$ 1,004
Charge-offs	(78)	(141)	(242)	(404)
Recoveries	41	32	111	117
Net loans and leases charged off	(37)	(109)	(131)	(287)
Provision for loan and lease losses from continuing operations	28	109	111	172
Foreign currency translation adjustment	1			(1)
Balance at end of period continuing operations	\$ 868	\$ 888	\$ 868	\$ 888

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

<i>in millions</i>	December 31,				September 30,
	2012	Provision	Charge-offs	Recoveries	2013
Commercial, financial and agricultural	\$ 327	\$ 57	\$ (44)	\$ 30	\$ 370
Real estate commercial mortgage	198	(28)	(18)	20	172
Real estate construction	41	(17)	(2)	14	36
Commercial lease financing	55	24	(25)	10	64
Total commercial loans	621	36	(89)	74	642
Real estate residential mortgage	30	17	(13)	1	35
Home equity:					
Key Community Bank	105	19	(50)	8	82
Other	25		(16)	5	14
Total home equity loans	130	19	(66)	13	96
Consumer other Key Community Bank	38	8	(24)	5	27
Credit cards	26	30	(25)	3	34
Consumer other:					
Marine	39	1	(22)	13	31
Other	4		(3)	2	3
Total consumer other:	43	1	(25)	15	34
Total consumer loans	267	75	(153)	37	226

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Total ALLL continuing operations	888	111	(242)	111	868
Discontinued operations	55	11	(42)	14	38
Total ALLL including discontinued operations	\$ 943	\$ 122	\$ (284)	\$ 125	\$ 906

Table of Contents

<i>in millions</i>	December 31,				September 30,
	2011	Provision	Charge-offs	Recoveries	2012
Commercial, financial and agricultural	\$ 334	\$ 9	\$ (65)	\$ 40	\$ 318
Real estate commercial mortgage	272		(69)	18	221
Real estate construction	63		(19)	3	47
Commercial lease financing	78	(10)	(20)	18	66
Total commercial loans	747	(1)	(173)	79	652
Real estate residential mortgage	37	5	(19)	2	25
Home equity:					
Key Community Bank	103	92	(113)	7	89
Other	29	14	(23)	4	24
Total home equity loans	132	106	(136)	11	113
Consumer other Key Community Bank	41	15	(29)	5	32
Credit cards		27	(2)		25
Consumer other:					
Marine	46	14	(41)	18	37
Other	1	5	(4)	2	4
Total consumer other:	47	19	(45)	20	41
Total consumer loans	257	172	(231)	38	236
Total ALLL continuing operations	1,004	171^(a)	(404)	117	888
Discontinued operations	104	4	(56)	13	65
Total ALLL including discontinued operations	\$ 1,108	\$ 175	\$ (460)	\$ 130	\$ 953

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

Our ALLL decreased by \$20 million, or 2%, since the third quarter of 2012. This contraction was associated with the improvement in credit quality of our loan portfolios. The quality of new loan originations and decreasing NPLs and net charge-offs has resulted in a reduction in our general allowance. Our general allowance encompasses the application of expected loss rates to our existing loans with similar risk characteristics, an assessment of factors such as changes in economic conditions and changes in credit policies or underwriting standards. Our delinquency trends have declined during 2012 and thus far in 2013 due to a modest level of loan growth, relatively stable conditions in the economic environment, and continued run off in our exit loan portfolio and reflects our effort to maintain a moderate enterprise risk tolerance.

For continuing operations, the loans outstanding individually evaluated for impairment totaled \$411 million, with a corresponding allowance of \$47 million at September 30, 2013. Loans outstanding collectively evaluated for impairment totaled \$53.2 billion, with a corresponding allowance of \$820 million at September 30, 2013. At September 30, 2013, PCI loans evaluated for impairment totaled \$18 million, with a corresponding allowance of \$1 million. There was no provision for loan and lease losses on these PCI loans during the quarter ended September 30, 2013.

Table of Contents

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

September 30, 2013	Allowance			Loans	Outstanding		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
<i>in millions</i>							
Commercial, financial and agricultural	\$ 17	\$ 353		\$ 24,317	\$ 108	\$ 24,209	
Commercial real estate:							
Commercial mortgage	1	171		7,544	46	7,496	\$ 2
Construction		36		1,058	44	1,014	
Total commercial real estate loans	1	207		8,602	90	8,510	2
Commercial lease financing		64		4,550		4,550	
Total commercial loans	18	624		37,469	198	37,269	2
Real estate residential mortgage	6	28	\$ 1	2,198	36	2,148	14
Home equity:							
Key Community Bank	10	72		10,285	102	10,181	2
Other	2	12		353	13	340	
Total home equity loans	12	84		10,638	115	10,521	2
Consumer other Key Community Bank		27		1,440	3	1,437	
Credit cards	1	33		698	6	692	
Consumer other:							
Marine	10	21		1,083	52	1,031	
Other		3		71	1	70	
Total consumer other	10	24		1,154	53	1,101	
Total consumer loans	29	196	1	16,128	213	15,899	16
Total ALLL continuing operations	47	820	1	53,597	411	53,168	18
Discontinued operations	1	37		4,738 ^(a)	11	4,727	
Total ALLL including discontinued operations	\$ 48	\$ 857	\$ 1	\$ 58,335	\$ 422	\$ 57,895	\$ 18

(a) Amount includes \$2.3 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	Allowance			Loans	Outstanding		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired		Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
<i>in millions</i>							
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

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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.

Table of Contents

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

September 30, 2012	Allowance			Outstanding		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired Loans	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Purchased Credit Impaired
<i>in millions</i>						
Commercial, financial and agricultural	\$ 12	\$ 306	\$ 21,979	\$ 92	\$ 21,886	\$ 1
Commercial real estate:						
Commercial mortgage	7	214	7,529	138	7,388	3
Construction		47	1,067	42	1,025	
Total commercial real estate loans	7	261	8,596	180	8,413	3
Commercial lease financing		66	4,960		4,960	
Total commercial loans	19	633	35,535	272	35,259	4
Real estate residential mortgage	1	24	2,138	18	2,103	17
Home equity:						
Key Community Bank	10	79	9,768	65	9,700	3
Other	1	23	409	10	399	
Total home equity loans	11	102	10,177	75	10,099	3
Consumer other Key Community Bank	1	31	1,313	2	1,310	1
Credit cards		25	710		710	
Consumer other:						
Marine	7	30	1,448	60	1,388	
Other		4	98	1	97	
Total consumer other	7	34	1,546	61	1,485	
Total consumer loans	20	216	15,884	156	15,707	21
Total ALLL continuing operations	39	849	51,419	428	50,966	25
Discontinued operations		65	5,328 ^(a)	3	5,325	
Total ALLL including discontinued operations	\$ 39	\$ 914	\$ 56,747	\$ 431	\$ 56,291	\$ 25

(a) Amount includes \$2.6 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 \$3 million since the third quarter of 2012 to \$40 million at September 30, 2013. When combined with our ALLL, our total allowance for credit losses represented 1.69% of loans at September 30, 2013, compared to 1.81% at September 30, 2012.

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

<i>in millions</i>	Three months ended September 30, 2013		Three months ended September 30, 2012	
	2013	2012	2013	2012
Balance at beginning of period	\$ 37	\$ 51	\$ 29	\$ 45

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Provision (credit) for losses on lending-related commitments	3	(8)	11	(2)
Balance at end of period	\$ 40	\$ 43	\$ 40	\$ 43

Table of Contents

5. Fair Value Measurements

Fair Value Determination

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

Valuation adjustments, such as those pertaining to counterparty and our own credit quality and liquidity, may be necessary to ensure that assets and liabilities are recorded at fair value. Credit valuation adjustments are made when market pricing does not accurately reflect the counterparty 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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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.

Table of Contents

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 September 30, 2013:

September 30, 2013

<i>in millions</i>	Fair Value	Unfunded Commitments
INVESTMENT TYPE		
Passive funds ^(a)	\$ 13	\$ 1
Co-managed funds ^(b)	15	
Total	\$ 28	\$ 1

- (a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to seven years.
- (b) We are a manager or co-manager of these funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. In addition, we receive management fees. We can sell or transfer our interest in any of these funds with the written consent of a majority of the fund's investors. In one instance, the other co-manager of the fund must consent to the sale or transfer of our interest in the fund. The funds will mature over a period of two to five years.

Principal investments. Principal investments consist of investments in equity and debt instruments made by our principal investing entities. They include direct investments (investments made in a particular company), as well as indirect investments (investments made through funds that include other investors).

Each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period's earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (comprised of individuals from one of the independent investment managers who oversee these instruments), members of the Key Principal Partners (KPP) finance and accounting staff, 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

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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

Table of Contents

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 September 30, 2013, was \$417 million and \$83 million, respectively. Our indirect investments consist of buyout, venture capital, and fund of funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds can be sold only with the approval of the fund's general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to nine years.

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

In addition, we have several customized derivative instruments and risk participations that are classified as Level 3 instruments. These derivative positions are valued using internally developed models, with inputs consisting of available market data, such as bond spreads and asset values, as well as unobservable internally-derived assumptions, such as loss probabilities and internal risk ratings of customers. These derivatives are priced monthly by our Market Risk Management group using a credit valuation adjustment methodology. Swap details with the customer and our related participation

Table of Contents

percentage, if applicable, are obtained from our derivatives accounting system, which is the system of record. Applicable customer rating information is obtained from the particular loan system and represents an unobservable input to this valuation process. Using these various inputs, a valuation of these Level 3 derivatives is performed using a model that was acquired from a third party. In summary, the fair value represents an estimate of the amount that the risk participation counterparty would need to pay/receive as of the measurement date based on the probability of customer default on the swap transaction and the fair value of the underlying customer swap. Therefore, a higher loss probability and a lower credit rating would negatively affect the fair value of the risk participations and a lower loss probability and higher credit rating would positively affect the fair value of the risk participations.

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

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

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

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

September 30, 2013*in millions*

	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short-term investments:				
Securities purchased under resale agreements		\$ 516		\$ 516
Trading account assets:				
U.S. Treasury, agencies and corporations		616		616
States and political subdivisions		26		26
Collateralized mortgage obligations		6		6
Other mortgage-backed securities		83		83
Other securities	\$ 6	66		72
Total trading account securities	6	797		803
Commercial loans		3		3
Total trading account assets	6	800		806
Securities available for sale:				
States and political subdivisions		41		41
Collateralized mortgage obligations		11,779		11,779
Other mortgage-backed securities		762		762
Other securities	24			24
Total securities available for sale	24	12,582		12,606
Other investments:				
Principal investments:				
Direct			\$ 168	168
Indirect			417	417
Total principal investments			585	585
Equity and mezzanine investments:				
Direct				
Indirect			28	28
Total equity and mezzanine investments			28	28
Total other investments			613	613
Derivative assets:				
Interest rate		1,112	19	1,131
Foreign exchange	60	10		70
Energy and commodity		137		137
Credit		2	4	6
Equity				
Derivative assets	60	1,261	23	1,344
Netting adjustments ^(a)				(869)
Total derivative assets	60	1,261	23	475
Accrued income and other assets		48		48

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Total assets on a recurring basis at fair value	\$ 90	\$ 15,207	\$ 636	\$ 15,064
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		\$ 464		\$ 464
Bank notes and other short-term borrowings:				
Short positions	\$ 4	458		462
Derivative liabilities:				
Interest rate		798		798
Foreign exchange	59	10		69
Energy and commodity		130	\$ 1	131
Credit		10	1	11
Equity				
Derivative liabilities	59	948	2	1,009
Netting adjustments ^(a)				(559)
Total derivative liabilities	59	948	2	450
Accrued expense and other liabilities		133		133
Total liabilities on a recurring basis at fair value	\$ 63	\$ 2,003	\$ 2	\$ 1,509

- (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 cash collateral. Total derivative assets and liabilities include these netting adjustments.

Table of Contents**December 31, 2012***in millions*

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

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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 cash collateral. Total derivative assets and liabilities include these netting adjustments.

Table of Contents

September 30, 2012

in millions

	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short term investments:				
Securities purchased under resale agreements		\$ 294		\$ 294
Trading account assets:				
U.S. Treasury, agencies and corporations		486		486
States and political subdivisions		14	\$ 56	70
Collateralized mortgage obligations		4		4
Other mortgage-backed securities		9	1	10
Other securities	\$ 10	78		88
Total trading account securities	10	591	57	658
Commercial loans		5		5
Total trading account assets	10	596	57	663
Securities available for sale:				
States and political subdivisions		54		54
Collateralized mortgage obligations		11,283		11,283
Other mortgage-backed securities		597	1	598
Other securities	27			27
Total securities available for sale	27	11,934	1	11,962
Other investments:				
Principal investments:				
Direct			214	214
Indirect			455	455
Total principal investments			669	669
Equity and mezzanine investments:				
Direct				
Indirect			42	42
Total equity and mezzanine investments			42	42
Total other investments			711	711
Derivative assets:				
Interest rate		1,841	23	1,864
Foreign exchange	52	29		81
Energy and commodity		183		183
Credit		14	5	19
Equity				
Derivative assets	52	2,067	28	2,147
Netting adjustments ^(a)				(1,376)
Total derivative assets	52	2,067	28	771
Accrued income and other assets		138		138
Total assets on a recurring basis at fair value	\$ 89	\$ 15,029	\$ 797	\$ 14,539
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		\$ 398		\$ 398
Bank notes and other short-term borrowings:				
Short positions	\$ 4	384		388

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Derivative liabilities:				
Interest rate		1,283		1,283
Foreign exchange	56	27		83
Energy and commodity		177	\$ 1	178
Credit		17	1	18
Equity				
Derivative liabilities	56	1,504	2	1,562
Netting adjustments ^(a)				(905)
Total derivative liabilities	56	1,504	2	657
Accrued expense and other liabilities	1			1
Total liabilities on a recurring basis at fair value	\$ 61	\$ 2,286	\$ 2	\$ 1,444

- (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 cash collateral. Total derivative assets and liabilities include these netting adjustments.

Table of Contents**Changes in Level 3 Fair Value Measurements**

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

<i>in millions</i>	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
Nine months ended September 30, 2013									
Trading account assets									
Other mortgage-backed securities		\$ 4 ^(b)		\$ (4)					
Other securities		4 ^(b)			\$ (4)				\$ (1) ^(b)
State and political subdivisions	\$ 3			(3)					