

KEYCORP /NEW/
Form 10-Q
May 01, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended

March 31, 2013

Commission File Number 1-11302

Exact name of registrant as specified in its charter:

Ohio
State or other jurisdiction of incorporation or organization

34-6542451
I.R.S. Employer 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):

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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

920,510,321 Shares
Outstanding at April 30, 2013

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KEYCORP

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

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

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

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Total liabilities	78,819	78,927	77,315
EQUITY			
Preferred stock, \$1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, \$100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839, 2,904,839 and 2,904,839 shares	291	291	291
Common shares, \$1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905 and 1,016,969,905 shares	1,017	1,017	1,017
Capital surplus	4,059	4,126	4,116
Retained earnings	7,065	6,913	6,411
Treasury stock, at cost (94,388,605, 91,201,285 and 60,868,267)	(1,930)	(1,952)	(1,717)
Accumulated other comprehensive income (loss)	(162)	(124)	(19)
Key shareholders' equity	10,340	10,271	10,099
Noncontrolling interests	39	38	17
Total equity	10,379	10,309	10,116
Total liabilities and equity	\$ 89,198	\$ 89,236	\$ 87,431

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

See Notes to Consolidated Financial Statements (Unaudited).

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

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

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

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

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

(c) EPS may not foot due to rounding.

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

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

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

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents**Consolidated Statements of Changes in Equity (Unaudited)**

<i>dollars in millions, except per share amounts</i>	Key Shareholders Equity								
	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
BALANCE AT DECEMBER 31, 2011	2,905	953,008	\$ 291	\$ 1,017	\$ 4,194	\$ 6,246	\$ (1,815)	\$ (28)	\$ 17
Net income (loss)						200			
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$6)								(11)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of \$7								12	
Foreign currency translation adjustments, net of income taxes								6	
Net pension and postretirement benefit costs, net of income taxes								2	
Deferred compensation					4				
Cash dividends declared on common shares (\$.03 per share)						(29)			
Cash dividends declared on Noncumulative Series A Preferred Stock (\$1.9375 per share)						(6)			
Common shares reissued (returned) for stock options and other employee benefit plans		3,094			(82)		98		
BALANCE AT MARCH 31, 2012	2,905	956,102	\$ 291	\$ 1,017	\$ 4,116	\$ 6,411	\$ (1,717)	\$ (19)	\$ 17
BALANCE AT DECEMBER 31, 2012	2,905	925,769	\$ 291	\$ 1,017	\$ 4,126	\$ 6,913	\$ (1,952)	\$ (124)	\$ 38
Net income (loss)						204			1
Other comprehensive income (loss):									
Net unrealized gains (losses) on securities available for sale, net of income taxes of (\$13)								(22)	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of (\$5)								(8)	
Foreign currency translation adjustments, net of income taxes								(11)	
Net pension and postretirement benefit costs, net of income taxes								3	
Deferred compensation					4				
Cash dividends declared on common shares (\$.05 per share)						(47)			
Cash dividends declared on Noncumulative Series A Preferred Stock (\$1.9375 per share)						(5)			
Common shares repurchased		(6,790)					(65)		
Common shares reissued (returned) for stock options and other employee benefit plans		3,602			(71)		87		
BALANCE AT MARCH 31, 2013	2,905	922,581	\$ 291	\$ 1,017	\$ 4,059	\$ 7,065	\$ (1,930)	\$ (162)	\$ 39

See Notes to Consolidated Financial Statements (Unaudited).

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

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

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

See Notes to Consolidated Financial Statements (Unaudited).

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

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

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

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

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ABO: Accumulated benefit obligation.	LIHTC: Low-income housing tax credit.
AICPA: American Institute of Certified Public Accountants.	LILO: Lease in, lease out transaction.
ALCO: Asset/Liability Management Committee.	Moody's: Moody's Investor Services, Inc.
ALLL: Allowance for loan and lease losses.	N/A: Not applicable.
A/LM: Asset/liability management.	NASDAQ: The NASDAQ Stock Market LLC.
AOCI: Accumulated other comprehensive income (loss).	N/M: Not meaningful.
APBO: Accumulated postretirement benefit obligation.	NOW: Negotiable Order of Withdrawal.
Austin: Austin Capital Management, Ltd.	NPR: Notice of proposed rulemaking.
BHCA: Bank Holding Company Act of 1956, as amended.	NYSE: New York Stock Exchange.
BHCs: Bank holding companies.	OCC: Office of the Comptroller of the Currency.
CCAR: Comprehensive Capital Analysis and Review.	OCI: Other comprehensive income (loss).
CFPB: Bureau of Consumer Financial Protection.	OFR: Office of Financial Research of the U.S. Department of Treasury.
CFTC: Commodities Futures Trading Commission.	OREO: Other real estate owned.
CMO: Collateralized mortgage obligation.	OTTI: Other-than-temporary impairment.
Common Shares: Common Shares, \$1 par value.	QSPE: Qualifying special purpose entity.
CPP: Capital Purchase Program of the U.S. Treasury.	PBO: Projected benefit obligation.
DIF: Deposit Insurance Fund of the FDIC.	PCCR: Purchased credit card relationship.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.	PCI: Purchased credit impaired.
ERISA: Employee Retirement Income Security Act of 1974.	S&P: Standard and Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc.
ERM: Enterprise risk management.	SCAP: Supervisory Capital Assessment Program administered by the Federal Reserve.
EVE: Economic value of equity.	SEC: U.S. Securities & Exchange Commission.
FASB: Financial Accounting Standards Board.	Series A Preferred Stock: KeyCorp's 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
FDIA: Federal Deposit Insurance Act, as amended.	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
FDIC: Federal Deposit Insurance Corporation.	
Federal Reserve: Board of Governors of the Federal Reserve System.	
FHFA: Federal Housing Finance Agency.	

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FHLMC: Federal Home Loan Mortgage Corporation.	Federal Reserve.
FINRA: Financial Industry Regulatory Authority.	SILO: Sale in, lease out transaction.
FNMA: Federal National Mortgage Association.	SPE: Special purpose entity.
FOMC: Federal Open Market Committee of the Federal Reserve Board.	TDR: Troubled debt restructuring.
FSOC: Financial Stability Oversight Council.	TE: Taxable equivalent.
FVA: Fair value of pension plan assets.	U.S. Treasury: United States Department of the Treasury.
GAAP: U.S. generally accepted accounting principles.	VaR: Value at risk.
GNMA: Government National Mortgage Association.	VEBA: Voluntary Employee Beneficiary Association.
HUD: U.S. Department of Housing and Urban Development.	Victory: Victory Capital Management and/or Victory Capital Advisors
IRS: Internal Revenue Service.	VIE: Variable interest entity.
ISDA: International Swaps and Derivatives Association.	XBRL: eXtensible Business Reporting Language.
KAHC: Key Affordable Housing Corporation.	

LIBOR: London Interbank Offered Rate.

The consolidated financial statements include the accounts of KeyCorp and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Some previously reported amounts have been reclassified to conform to current reporting practices. The noninterest income line items reported on the consolidated statements of income have been changed for the current quarter and all prior quarters to reflect our current business mix.

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

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

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

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

Offsetting Derivative Positions

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

Accounting Guidance Adopted in 2013

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

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

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

Accounting Guidance Pending Adoption at March 31, 2013

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

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

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

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

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

(b) EPS may not foot due to rounding.

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

Our loans by category are summarized as follows:

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

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

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

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

Our loans held for sale are summarized as follows:

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

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

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

Table of Contents**4. Asset Quality**

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

Our nonperforming assets and past due loans were as follows:

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

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

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

(c) Includes approximately \$4 million and \$3 million of restructured loans at March 31, 2013 and December 31, 2012, respectively. There were no additional restructured loans at March 31, 2012. See Note 11 (Acquisitions and Discontinued Operations) for further discussion.

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

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

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

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At March 31, 2013, the outstanding unpaid principal balance and carrying value of all PCI loans was \$29 million and \$22 million, respectively. Changes in the accretable yield during 2013 included accretion and net reclassifications of less than \$1 million, resulting in an ending balance of \$4 million at March 31, 2013.

At March 31, 2013, the approximate carrying amount of our commercial nonperforming loans outstanding represented 63% of their original contractual amount, total nonperforming loans outstanding represented 76% of their original contractual amount owed, and nonperforming assets in total were carried at 73% of their original contractual amount.

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

Nonperforming loans and loans held for sale reduced expected interest income by \$6 million for the three months ended March 31, 2013, and \$25 million for the year ended December 31, 2012.

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

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

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

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

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

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December 31, 2012					Average	
<i>in millions</i>	Recorded Investment	(a)	Unpaid Principal Balance	(b)	Specific Allowance	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

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Total	\$	411	\$	639	\$	35	\$	400
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(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

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

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March 31, 2012				Average		
<i>in millions</i>	Recorded Investment	(a)	Unpaid Principal Balance	(b)	Specific Allowance	Recorded Investment
With no related allowance recorded:						
Commercial, financial and agricultural	\$ 77		\$ 189			\$ 83
Commercial real estate:						
Commercial mortgage	113		252			106
Construction	47		164			39
Total commercial real estate loans	160		416			145
Total commercial loans with no related allowance recorded	237		605			228
Real estate residential mortgage						
Home equity:						
Key Community Bank						
Other						
Total home equity loans						
Consumer other Key Community Bank						
Credit cards						
Consumer other:						
Marine						
Other						
Total consumer other						
Total consumer loans						
Total loans with no related allowance recorded	237		605			228
With an allowance recorded:						
Commercial, financial and agricultural	49		60		\$ 19	55
Commercial real estate:						
Commercial mortgage	69		111		16	83
Construction	4		4		3	8
Total commercial real estate loans	73		115		19	91
Commercial lease financing						
Total commercial loans with an allowance recorded	122		175		38	146
Real estate residential mortgage						
Home equity:						
Key Community Bank						
Other						
Total home equity loans						
Consumer other Key Community Bank						
Credit cards						
Consumer other:						
Marine						

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Other

Total consumer other

Total consumer loans

Total loans with an allowance recorded	122	175	38	146
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Total	\$ 359	\$ 780	\$ 38	\$ 374
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(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, and unamortized premium or discount, and reflects direct charge-offs. This amount is a component of total loans on our consolidated balance sheet.

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

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

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

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

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

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

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

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

December 31, 2012		Pre-modification Outstanding	Post-modification Outstanding
<i>dollars in millions</i>	Number of loans	Recorded Investment	Recorded Investment
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	82	\$ 76	\$ 39
Commercial real estate:			
Real estate commercial mortgage	15	62	25
Real estate construction	8	53	33
Total commercial real estate loans	23	115	58
Total commercial loans	105	191	97
Real estate residential mortgage	372	28	28
Home equity:			
Key Community Bank	1,577	87	82
Other	322	9	8
Total home equity loans	1,899	96	90
Consumer other Key Community Bank	28	1	1
Credit cards	405	3	3
Consumer other:			
Marine	251	30	29
Other	34	1	1
Total consumer other	285	31	30
Total consumer loans	2,989	159	152
Total nonperforming TDRs	3,094	350	249
Prior-year accruing ^(a)			
Commercial, financial and agricultural	122	12	6
Commercial real estate:			
Real estate commercial mortgage	4	22	15
Total commercial real estate loans	4	22	15
Total commercial loans	126	34	21
Real estate residential mortgage	101	10	10
Home equity:			
Key Community Bank	76	5	5
Other	84	3	3
Total home equity loans	160	8	8
Consumer other Key Community Bank	16		
Consumer other:			
Marine	117	31	31
Other	43	1	1

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Total consumer other	160		32		32
Total consumer loans	437		50		50
Total prior-year accruing TDRs	563		84		71
Total TDRs	3,657	\$	434	\$	320

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

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

March 31, 2012 <i>dollars in millions</i>	Number of loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	102	\$ 105	\$ 64
Commercial real estate:			
Real estate commercial mortgage	16	102	64
Real estate construction	8	35	19
Total commercial real estate loans	24	137	83
Total commercial loans	126	242	147
Real estate residential mortgage	43	5	5
Home equity:			
Key Community Bank	27	3	3
Other	32	1	1
Total home equity loans	59	4	4
Consumer other Key Community Bank	2		
Consumer other:			
Marine	48	28	28
Other	6		
Total consumer other	54	28	28
Total consumer loans	158	37	37
Total nonperforming TDRs	284	279	184
Prior-year accruing ^(a)			
Commercial, financial and agricultural	176	20	11
Commercial real estate:			
Real estate commercial mortgage	7	75	57
Real estate construction	1	15	2
Total commercial real estate loans	8	90	59
Total commercial loans	184	110	70
Real estate residential mortgage	113	12	12
Home equity:			
Key Community Bank	88	7	7
Other	104	3	3
Total home equity loans	192	10	10
Consumer other Key Community Bank	19		
Consumer other:			
Marine	140	15	15
Other	51	2	2
Total consumer other	191	17	17
Total consumer loans	515	39	39

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

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

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

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

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

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

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

(b) Concession types for consumer accruing and nonaccruing TDRs consisted primarily of interest rate reductions and modifications due to updated regulatory guidance in the quarters ended March 31, 2013, December 31, 2012, and March 31, 2012, respectively.

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

At March 31, 2013, approximately \$51.5 billion, or 97.9%, of our total loans are current. At March 31, 2013, total past due loans and nonperforming loans of \$1.1 billion represent approximately 2.1% of total loans.

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

March 31, 2013	Current	Days Past Due			Total Past		Purchased Credit Impaired	Total Loans
		30-59	60-89	90 and Greater	Nonperforming Loans	Nonperforming Loans		
<i>in millions</i>								
LOAN TYPE								
Commercial, financial and agricultural	\$ 23,134	\$ 35	\$ 74	\$ 26	\$ 142	\$ 277	\$ 1	\$ 23,412
Commercial real estate:								
Commercial mortgage	7,368	35	14	11	114	174	2	7,544
Construction	1,024	5		1	27	33		1,057
Total commercial real estate loans	8,392	40	14	12	141	207	2	8,601
Commercial lease financing	4,728	34	11	11	12	68		4,796
Total commercial loans	\$ 36,254	\$ 109	\$ 99	\$ 49	\$ 295	\$ 552	\$ 3	\$ 36,809
Real estate residential mortgage	\$ 2,037	\$ 15	\$ 5	\$ 7	\$ 96	\$ 123	\$ 16	\$ 2,176
Home equity:								
Key Community Bank	9,512	51	28	17	199	295	2	9,809
Other	371	7	3	2	18	30		401
Total home equity loans	9,883	58	31	19	217	325	2	10,210
Consumer other Key Community Bank	1,331	8	4	6	3	21	1	1,353
Credit cards	668	8	4		13	25		693
Consumer other:								
Marine	1,202	18	7	2	25	52		1,254
Other	76	1	1		1	3		79
Total consumer other	1,278	19	8	2	26	55		1,333
Total consumer loans	\$ 15,197	\$ 108	\$ 52	\$ 34	\$ 355	\$ 549	\$ 19	\$ 15,765
Total loans	\$ 51,451	\$ 217	\$ 151	\$ 83	\$ 650	\$ 1,101	\$ 22	\$ 52,574

December 31, 2012	Current	Days Past Due			Total Past		Purchased Credit Impaired	Total Loans
		30-59	60-89	90 and Greater	Nonperforming Loans (a)	Nonperforming Loans		
<i>in millions</i>								
LOAN TYPE								
Commercial, financial and agricultural	\$ 23,030	\$ 56	\$ 34	\$ 22	\$ 99	\$ 211	\$ 1	\$ 23,242
Commercial real estate:								
Commercial mortgage	7,556	21	11	9	120	161	3	7,720
Construction	943	1	2	1	56	60		1,003
Total commercial real estate loans	8,499	22	13	10	176	221	3	8,723
Commercial lease financing	4,772	88	31	8	16	143		4,915

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

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

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March 31, 2012									
<i>in millions</i>	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans	Total Past Due and Nonperforming Loans	Total Loans		
LOAN TYPE									
Commercial, financial and agricultural	\$ 19,989	\$ 25	\$ 16	\$ 19	\$ 168	\$ 228	\$ 20,217		
Commercial real estate:									
Commercial mortgage	7,532	7	11	82	175	275	7,807		
Construction	1,170	19	7	11	66	103	1,273		
Total commercial real estate loans	8,702	26	18	93	241	378	9,080		
Commercial lease financing	5,140	126	22	15	22	185	5,325		
Total commercial loans	\$ 33,831	\$ 177	\$ 56	\$ 127	\$ 431	\$ 791	\$ 34,622		
Real estate residential mortgage									
Home equity:	\$ 1,852	\$ 20	\$ 8	\$ 5	\$ 82	\$ 115	\$ 1,967		
Key Community Bank	8,941	53	34	16	109	212	9,153		
Other	476	9	6	4	12	31	507		
Total home equity loans	9,417	62	40	20	121	243	9,660		
Consumer other Key Community Bank									
Consumer other:	1,189	9	4	9	1	23	1,212		
Marine	1,576	30	11	7	30	78	1,654		
Other	106	2	1	1	1	5	111		
Total consumer other	1,682	32	12	8	31	83	1,765		
Total consumer loans	\$ 14,140	\$ 123	\$ 64	\$ 42	\$ 235	\$ 464	\$ 14,604		
Total loans	\$ 47,971	\$ 300	\$ 120	\$ 169	\$ 666	\$ 1,255	\$ 49,226		

The prevalent risk characteristic for both commercial and consumer loans is the risk of loss arising from an obligor's inability or failure to meet contractual payment or performance terms. Evaluation of this risk is stratified and monitored by the assigned loan risk rating grades for the commercial loan portfolios and the regulatory risk ratings assigned for the consumer loan portfolios. This risk rating stratification assists in the determination of the ALLL. Loan grades are assigned at the time of origination, verified by credit risk management, and periodically reevaluated thereafter.

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

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

Credit quality indicators for our commercial and consumer loan portfolios, excluding \$22 million of PCI loans at March 31, 2013, based on bond rating, regulatory classification and payment activity as of March 31, 2013, and 2012 are as follows:

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

March 31,

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

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

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

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

Consumer Credit Exposure**Credit Risk Profile by Regulatory Classifications ^{(a) (b)}**

March 31,

in millions

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

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

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

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

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

We determine the appropriate level of the ALLL on at least a quarterly basis. The methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses on page 120 of our 2012 Form 10-K. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance greater than \$2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of impairment by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan's observable market price. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at March 31, 2013, represents our best estimate of the probable credit losses inherent in the loan portfolio at that date.

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

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

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

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

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

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

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

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

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

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

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

Our ALLL decreased by \$51 million, or 5%, since the first quarter of 2012. This contraction was associated with the improvement in credit quality of our loan portfolios, which has trended more favorably over the past four quarters. Our asset quality metrics have shown continued improvement resulting in favorable risk rating migration and a reduction in our general allowance. Our general allowance encompasses the application of expected loss rates to our existing loans with similar risk characteristics, an assessment of factors such as changes in economic conditions and changes in credit policies or underwriting standards. Our delinquency trends showed continued improvement during 2012 and into 2013. We attribute this improvement to a more moderate level of lending activity, more favorable conditions in the capital markets, improvement in client income statements, and continued run off in our exit loan portfolio.

For continuing operations, the loans outstanding individually evaluated for impairment totaled \$445 million, with a corresponding allowance of \$34 million at March 31, 2013. Loans outstanding collectively evaluated for impairment totaled \$52.1 billion, with a corresponding allowance of \$859 million at March 31, 2013. At March 31, 2013, PCI loans evaluated for impairment totaled \$22 million, with a corresponding allowance of less than \$1 million. There was no provision for loan and lease losses on these PCI loans during the quarter ended March 31, 2013.

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

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

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

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

December 31, 2012 <i>in millions</i>	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
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
Commercial lease financing		55		4,915				4,915
Total commercial loans	13	608		36,880		209		36,667
Real estate residential mortgage	1	29	\$	1		2,174	38	2,120
Home equity:								
Key Community Bank	11	94		9,816		87		9,726
Other	1	24		423		12		411
Total home equity loans	12	118		10,239		99		10,137
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
Total ALLL continuing operations	35	852	1	52,822		411		52,388
Discontinued operations		55		5,201 ^(a)		3		5,198
Total ALLL including discontinued operations	\$ 35	\$ 907	\$ 1	\$ 58,023		\$ 414		\$ 57,586

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

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

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

(a) There were no PCI loans at March 31, 2012.

(b) Amount includes \$2.8 billion of loans carried at fair value that are excluded from ALLL considerations.

The liability for credit losses inherent in lending-related unfunded commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments has decreased by \$13 million since the first quarter of 2012 to \$32 million at March 31, 2013. When combined with our ALLL, our total allowance for credit losses represented 1.76% of loans at March 31, 2013, compared to 2.01% at March 31, 2012.

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

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

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5. Fair Value Measurements