KEYCORP /NEW/
Form 10-Q
November 04, 2014


**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, 2014**

**Commission File Number 1-11302**

**Exact name of registrant as specified in its charter:**

| | |
|---|---|
| **Ohio** | **34-6542451** |

| | |
|---|---|
| **State or other jurisdiction of** | **I.R.S. Employer** |
| **incorporation or organization** | **Identification Number:** |
| **127 Public Square, Cleveland, Ohio** | **44114-1306** |
| **Address of principal executive offices:** | **Zip Code:** |

**(216) 689-3000**
**Registrant s telephone number, including area code:**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x | 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 x

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** | **866,324,529 Shares** |
| **Title of class** | **Outstanding at October 31, 2014** |

Table of Contents

**KEYCORP**

TABLE OF CONTENTS

**PART I. FINANCIAL INFORMATION**

**Table of Contents**

**Table of Contents**

**Table of Contents**



**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**

| *in millions, except per share data* | **September 30, 2014 (Unaudited)** | **December 31, 2013** | **September 30, 2013 (Unaudited)** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and due from banks | **$ 651** | $ 617 | $ 748 |
| Short-term investments | **2,342** | 5,590 | 3,535 |
| Trading account assets | **965** | 738 | 806 |
| Securities available for sale | **12,245** | 12,346 | 12,606 |
| Held-to-maturity securities (fair value: $4,911, $4,617, and $4,730) | **4,997** | 4,756 | 4,835 |
| Other investments | **822** | 969 | 1,007 |
| Loans, net of unearned income of $685, $805, and $827 | **56,155** | 54,457 | 53,597 |
| Less: Allowance for loan and lease losses | **804** | 848 | 868 |
| Net loans | **55,351** | 53,609 | 52,729 |
| Loans held for sale | **784** | 611 | 699 |
| Premises and equipment | **832** | 885 | 890 |
| Operating lease assets | **304** | 305 | 293 |
| Goodwill | **1,051** | 979 | 979 |
| Other intangible assets | **126** | 127 | 137 |
| Corporate-owned life insurance | **3,456** | 3,408 | 3,384 |
| Derivative assets | **413** | 407 | 475 |
| Accrued income and other assets (including $1 of consolidated LIHTC guaranteed funds VIEs, see Note 9) [(a)] | **3,024** | 3,015 | 2,747 |
| Discontinued assets (including $201 of loans in portfolio at fair value) | **2,421** | 4,572 | 4,838 |
| Total assets | **$ 89,784** | $ 92,934 | $ 90,708 |
| **LIABILITIES** | | | |
| Deposits in domestic offices: | | | |
| NOW and money market deposit accounts | **$ 33,941** | $ 33,952 | $ 33,132 |
| Savings deposits | **2,390** | 2,472 | 2,489 |
| Certificates of deposit ($100,000 or more) | **2,533** | 2,631 | 2,698 |
| Other time deposits | **3,338** | 3,648 | 3,833 |
| Total interest-bearing deposits | **42,202** | 42,703 | 42,152 |
| Noninterest-bearing deposits | **25,697** | 26,001 | 25,778 |
| Deposits in foreign office interest-bearing | **557** | 558 | 605 |

| | | | |
|---|---|---|---|
| Total deposits | **68,456** | 69,262 | 68,535 |
| Federal funds purchased and securities sold under repurchase agreements | **657** | 1,534 | 1,455 |
| Bank notes and other short-term borrowings | **996** | 343 | 466 |
| Derivative liabilities | **384** | 414 | 450 |
| Accrued expense and other liabilities | **1,613** | 1,557 | 1,375 |
| Long-term debt | **7,172** | 7,650 | 6,154 |
| Discontinued liabilities | **3** | 1,854 | 2,037 |
| Total liabilities | **79,281** | 82,614 | 80,472 |
| **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, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905, and 1,016,969,905 shares | **1,017** | 1,017 | 1,017 |
| Capital surplus | **3,984** | 4,022 | 4,029 |
| Retained earnings | **8,082** | 7,606 | 7,431 |
| Treasury stock, at cost (148,492,881, 126,245,538, and 119,148,654 shares) | **(2,563)** | (2,281) | (2,193) |
| Accumulated other comprehensive income (loss) | **(325)** | (352) | (369) |
| Key shareholders equity | **10,486** | 10,303 | 10,206 |
| Noncontrolling interests | **17** | 17 | 30 |
| Total equity | **10,503** | 10,320 | 10,236 |
| Total liabilities and equity | **$ 89,784** | $ 92,934 | $ 90,708 |

(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 VIEs.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

**Consolidated Statements of Income (Unaudited)**

| *dollars in millions, except per share amounts* | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| **INTEREST INCOME** | | | | |
| Loans | **$ 531** | $ 532 | **$ 1,576** | $ 1,619 |
| Loans held for sale | **4** | 5 | **13** | 14 |
| Securities available for sale | **67** | 76 | **210** | 236 |
| Held-to-maturity securities | **25** | 22 | **70** | 60 |
| Trading account assets | **6** | 5 | **19** | 15 |
| Short-term investments | **2** | 1 | **4** | 4 |
| Other investments | **4** | 6 | **16** | 23 |
| Total interest income | **639** | 647 | **1,908** | 1,971 |
| **INTEREST EXPENSE** | | | | |
| Deposits | **28** | 37 | **91** | 124 |
| Federal funds purchased and securities sold under repurchase agreements | **1** | 1 | **2** | 2 |
| Bank notes and other short-term borrowings | **2** | 2 | **6** | 5 |
| Long-term debt | **33** | 29 | **98** | 98 |
| Total interest expense | **64** | 69 | **197** | 229 |
| **NET INTEREST INCOME** | **575** | 578 | **1,711** | 1,742 |
| Provision (credit) for loan and lease losses | **21** | 28 | **37** | 111 |
| Net interest income (expense) after provision for loan and lease losses | **554** | 550 | **1,674** | 1,631 |
| **NONINTEREST INCOME** | | | | |
| Trust and investment services income | **99** | 100 | **291** | 295 |
| Investment banking and debt placement fees | **88** | 86 | **271** | 249 |
| Service charges on deposit accounts | **68** | 73 | **197** | 213 |
| Operating lease income and other leasing gains | **17** | 44 | **81** | 91 |
| Corporate services income | **42** | 44 | **125** | 132 |
| Cards and payments income | **42** | 43 | **123** | 122 |
| Corporate-owned life insurance income | **26** | 26 | **80** | 87 |
| Consumer mortgage income | **3** | 3 | **7** | 16 |
| Mortgage servicing fees | **9** | 15 | **35** | 36 |
| Net gains (losses) from principal investing | **9** | 17 | **60** | 32 |
| Other income [(a)] | **14** | 8 | **37** | 40 |
| Total noninterest income | **417** | 459 | **1,307** | 1,313 |
| **NONINTEREST EXPENSE** | | | | |
| Personnel | **405** | 414 | **1,182** | 1,211 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net occupancy | | **66** | | 66 | | **198** | | 202 |
| Computer processing | | **39** | | 38 | | **118** | | 116 |
| Business services and professional fees | | **36** | | 37 | | **118** | | 109 |
| Equipment | | **25** | | 25 | | **73** | | 78 |
| Operating lease expense | | **11** | | 14 | | **31** | | 37 |
| Marketing | | **15** | | 16 | | **33** | | 33 |
| FDIC assessment | | **9** | | 7 | | **21** | | 23 |
| Intangible asset amortization | | **10** | | 12 | | **29** | | 34 |
| Provision (credit) for losses on lending-related commitments | | **(2)** | | 3 | | **(2)** | | 11 |
| OREO expense, net | | **1** | | 1 | | **3** | | 5 |
| Other expense | | **89** | | 83 | | **251** | | 249 |
| Total noninterest expense | | **704** | | 716 | | **2,055** | | 2,108 |
| **INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | | **267** | | 293 | | **926** | | 836 |
| Income taxes | | **64** | | 59 | | **232** | | 201 |
| **INCOME (LOSS) FROM CONTINUING OPERATIONS** | | **203** | | 234 | | **694** | | 635 |
| Income (loss) from discontinued operations, net of taxes of ($10), $21, ($24), and $29 (see Note 11) [b] | | **(17)** | | 37 | | **(41)** | | 45 |
| **NET INCOME (LOSS)** [b] | | **186** | | 271 | | **653** | | 680 |
| Less: Net income (loss) attributable to noncontrolling interests | | | | (1) | | **6** | | |
| **NET INCOME (LOSS) ATTRIBUTABLE TO KEY** [b] | **$** | **186** | $ | 272 | **$** | **647** | $ | 680 |
| Income (loss) from continuing operations attributable to Key common shareholders | **$** | **197** | $ | 229 | **$** | **671** | $ | 618 |
| Net income (loss) attributable to Key common shareholders [b] | | **180** | | 266 | | **630** | | 663 |
| Per common share: | | | | | | | | |
| Income (loss) from continuing operations attributable to Key common shareholders | **$** | **.23** | $ | .25 | **$** | **.77** | $ | .68 |
| Income (loss) from discontinued operations, net of taxes [b] | | **(.02)** | | .04 | | **(.05)** | | .05 |
| Net income (loss) attributable to Key common shareholders [b], [c] | | **.21** | | .29 | | **.72** | | .73 |
| Per common share assuming dilution: | | | | | | | | |
| Income (loss) from continuing operations attributable to Key common shareholders | **$** | **.23** | $ | .25 | **$** | **.76** | $ | .67 |
| Income (loss) from discontinued operations, net of taxes [b] | | **(.02)** | | .04 | | **(.05)** | | .05 |
| Net income (loss) attributable to Key common shareholders [b], [c] | | **.21** | | .29 | | **.71** | | .72 |

| | | | | |
|---|---|---|---|---|
| Cash dividends declared per common share | **$ .065** | $ .055 | **$ .185** | $ .16 |
| Weighted-average common shares outstanding (000) | **867,350** | 901,904 | **875,728** | 911,918 |
| Effect of convertible preferred stock | | | | |
| Effect of common share options and other stock awards | **6,772** | 6,349 | **6,723** | 5,661 |
| Weighted-average common shares and potential common shares outstanding (000) [d] | **874,122** | 908,253 | **882,451** | 917,579 |

(a) For each of the three months ended September 30, 2014, and September 30, 2013, net securities gains (losses) totaled less than $1 million. For the three months ended September 30, 2014, and September 30, 2013, we did not have any impairment losses related to securities.

(b) For the three and nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp s Form 8-K filed on November 4, 2014.

(c) EPS may not foot due to rounding.

(d) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

See Notes to Consolidated Financial Statements (Unaudited).

2

Table of Contents

## Consolidated Statements of Comprehensive Income (Unaudited)

| *in millions* | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Net income (loss) [(a)] | **$ 186** | $ 271 | **$ 653** | $ 680 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net unrealized gains (losses) on securities available for sale, net of income taxes of ($20), ($48), $14, and ($135) | **(33)** | (81) | **24** | (228) |
| Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($6), $6, ($3), and ($17) | **(8)** | 10 | **(4)** | (29) |
| Foreign currency translation adjustments, net of income taxes of ($3), $1, ($3), and ($3) | **(9)** | 2 | **(12)** | (12) |
| Net pension and postretirement benefit costs, net of income taxes of $10, $12, $13, and $16 | **14** | 18 | **19** | 24 |
| Total other comprehensive income (loss), net of tax | **(36)** | (51) | **27** | (245) |
| Comprehensive income (loss) | **150** | 220 | **680** | 435 |
| Less: Comprehensive income attributable to noncontrolling interests | | (1) | **6** | |
| Comprehensive income (loss) attributable to Key | **$ 150** | $ 221 | **$ 674** | $ 435 |

(a) For the three and nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp s Form 8-K filed on November 4, 2014.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

## Consolidated Statements of Changes in Equity (Unaudited)

| | Key Shareholders Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *dollars in millions, except per share amounts* | Preferred Shares Outstanding (000) | Common Shares Outstanding (000) | Preferred Stock | Common Shares | Capital Surplus | Retained Earnings | Treasury Stock, at Cost | Accumulated Other Comprehensive Income (Loss) | Noncontrolling Interests |
| **BALANCE AT DECEMBER 31, 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 of ($3) | | | | | | | | (12) | |
| Net pension and postretirement benefit costs, net of income taxes of $16 | | | | | | | | 24 | |
| Deferred compensation | | | | | 3 | | | | |
| Cash dividends declared on common shares ($.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 |
| **BALANCE AT DECEMBER 31, 2013** | 2,905 | 890,724 | $ 291 | $ 1,017 | $ 4,022 | $ 7,606 | $ (2,281) | $ (352) | $ 17 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net income (loss) [(a)] | | | | | | **647** | | | **6** |
| Other comprehensive income (loss): | | | | | | | | | |
| Net unrealized gains (losses) on securities available for sale, net of income taxes of $14 | | | | | | | | **24** | |
| Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($3) | | | | | | | | **(4)** | |
| Foreign currency translation adjustments, net of income taxes of ($3) | | | | | | | | **(12)** | |
| Net pension and postretirement benefit costs, net of income taxes of $13 | | | | | | | | **19** | |
| Cash dividends declared on common shares ($.185 per share) | | | | | | **(161)** | | | |
| Cash dividends declared on Noncumulative Series A Preferred Stock ($5.8125 per share) | | | | | | **(17)** | | | |
| Common shares repurchased | | **(26,499)** | | | | | **(355)** | | |
| Common shares reissued (returned) for stock options and other employee benefit plans | | **4,252** | | | **(38)** | | **73** | | |
| LIHTC guaranteed funds put | | | | | | **7** | | | |
| Net contribution from (distribution to) noncontrolling interests | | | | | | | | | **(6)** |
| **BALANCE AT SEPTEMBER 30, 2014** | **2,905** | **868,477** | **$ 291** | **$ 1,017** | **$ 3,984** | **$ 8,082** | **$ (2,563)** | **$ (325)** | **$ 17** |

(a) For the nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp s Form 8-K filed on November 4, 2014.

See Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

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

| *in millions* | Nine months ended September 30, 2014 | 2013 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income (loss) [(a)] | **$ 653** | $ 680 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Provision (credit) for loan and lease losses | **37** | 111 |
| Provision (credit) for losses on lending-related commitments | **(2)** | 11 |
| Provision (credit) for losses on LIHTC guaranteed funds | **(6)** | 4 |
| Depreciation, amortization and accretion expense, net | **174** | 168 |
| Increase in cash surrender value of corporate-owned life insurance | **(73)** | (74) |
| Stock-based compensation expense | **31** | 27 |
| FDIC reimbursement (payments), net of FDIC expense | **1** | 296 |
| Deferred income taxes (benefit) | **(29)** | (4) |
| Proceeds from sales of loans held for sale | **2,832** | 3,815 |
| Originations of loans held for sale, net of repayments | **(2,951)** | (3,779) |
| Net losses (gains) on sales of loans held for sale | **(59)** | (85) |
| Net losses (gains) from principal investing | **(60)** | (32) |
| Net losses (gains) and writedown on OREO | **3** | 5 |
| Net losses (gains) on leased equipment | **(35)** | (36) |
| Net losses (gains) on sales of fixed assets | **5** | 9 |
| Gain on sale of Victory | **(10)** | (146) |
| Loss on sale of residual interests and deconsolidation of securitization trusts | **40** | |
| Net decrease (increase) in trading account assets | **(227)** | (201) |
| Other operating activities, net | **141** | 99 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | **465** | 868 |
| **INVESTING ACTIVITIES** | | |
| Cash received (used) in acquisitions, net of cash acquired | **(113)** | 817 |
| Proceeds from sale of residual interests | **57** | |
| Proceeds from sale of Victory | **10** | 131 |
| Net decrease (increase) in short-term investments, excluding acquisitions | **3,285** | 405 |
| Purchases of securities available for sale | **(1,993)** | (4,628) |
| Proceeds from sales of securities available for sale | | 29 |
| Proceeds from prepayments and maturities of securities available for sale | **2,123** | 3,725 |
| Proceeds from prepayments and maturities of held-to-maturity securities | **628** | 667 |
| Purchases of held-to-maturity securities | **(869)** | (1,572) |
| Purchases of other investments | **(42)** | (30) |
| Proceeds from sales of other investments | **266** | 39 |
| Proceeds from prepayments and maturities of other investments | **3** | 82 |
| Net decrease (increase) in loans, excluding acquisitions, sales and transfers | **(1,936)** | (1,098) |
| Proceeds from sales of portfolio loans | **91** | 150 |
| Proceeds from corporate-owned life insurance | **24** | 23 |
| Purchases of premises, equipment, and software | **(53)** | (60) |

| | | | | |
|---|---|---|---|---|
| Proceeds from sales of premises and equipment | | **1** | | 8 |
| Proceeds from sales of other real estate owned | | **13** | | 19 |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | | **1,495** | | (1,293) |
| **FINANCING ACTIVITIES** | | | | |
| Net increase (decrease) in deposits, excluding acquisitions | | **(806)** | | 1,605 |
| Net increase (decrease) in short-term borrowings | | **(224)** | | 26 |
| Net proceeds from issuance of long-term debt | | **648** | | 1,013 |
| Payments on long-term debt | | **(1,034)** | | (1,540) |
| Repurchase of common shares | | **(355)** | | (375) |
| Net proceeds from reissuance of common shares | | **23** | | 22 |
| Cash dividends paid | | **(178)** | | (162) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | | **(1,926)** | | 589 |
| **NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS** | | **34** | | 164 |
| **CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD** | | **617** | | 584 |
| **CASH AND DUE FROM BANKS AT END OF PERIOD** | **$** | **651** | $ | 748 |
| Additional disclosures relative to cash flows: | | | | |
| Interest paid | **$** | **250** | $ | 271 |
| Income taxes paid (refunded) | | **109** | | 114 |
| Noncash items: | | | | |
| Assets acquired | **$** | **35** | $ | 41 |
| Liabilities assumed | | **22** | | |
| Reduction of secured borrowing and related collateral | | **78** | | |
| LIHTC guaranteed funds put | | **7** | | |
| Loans transferred to portfolio from held for sale | | **10** | | 2 |
| Loans transferred to held for sale from portfolio | | **5** | | 53 |
| Loans transferred to other real estate owned | | **16** | | 16 |

(a) For the nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp s Form 8-K filed on November 4, 2014.

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 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 2013 Form 10-K refer to our Form 10-K for the year ended December 31, 2013, 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).

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.
BHCs: Bank holding companies.
CCAR: Comprehensive Capital Analysis and Review.
CMBS: Commercial mortgage-backed securities.
CMO: Collateralized mortgage obligation.
Common shares: KeyCorp common shares, $1 par value.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
EPS: Earnings per share.
ERISA: Employee Retirement Income Security Act of 1974.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
FDIC: Federal Deposit Insurance Corporation.
Federal Reserve: Board of Governors of the Federal Reserve System.
FHLMC: Federal Home Loan Mortgage Corporation.
FNMA: Federal National Mortgage Association.
FOMC: Federal Open Market Committee of the Federal Reserve Board.
FSOC: Financial Stability Oversight Council.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
KEF: Key Equipment Finance.
KREEC: Key Real Estate Equity Capital, Inc.

LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
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.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
QSPE: Qualifying special purpose entity.
PBO: Projected benefit obligation.
PCI: Purchased credit impaired.
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
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 institutions, including
BHCs with total consolidated assets of at least $50 billion and nonbank financial companies designated by FSOC for supervision by the Federal Reserve.
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.

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.

Table of Contents

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

We use the equity method to account for unconsolidated investments in voting rights entities or VIEs if we have significant influence over the entity s operating and financing decisions (usually defined as a voting or economic interest of 20% to 50%, but not controlling). Unconsolidated investments in voting rights entities or VIEs in which we have a voting or economic interest of less than 20% generally are carried at cost. Investments held by our registered broker-dealer and investment company subsidiaries (principal investing entities and Real Estate Capital line of business) 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 2013 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 2014**

***Presentation of unrecognized tax benefits.*** In July 2013, the FASB issued new accounting guidance that requires unrecognized tax benefits to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if certain criteria are met. This accounting guidance was applied prospectively to unrecognized tax benefits that existed at the effective date. It was effective for fiscal years, and interim periods within those years, beginning after December 15, 2013 (effective January 1, 2014, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide additional information regarding the presentation of our unrecognized tax benefits in Note 10 ( Income Taxes ).

***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 was effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013 (effective January 1, 2014, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. We provide the disclosures required by this new accounting guidance in Note 5 ( Fair Value Measurements ).

***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 was 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.

***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 was effective prospectively for reporting periods beginning after December 15, 2013 (effective January 1, 2014, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

**Accounting Guidance Pending Adoption at September 30, 2014**

***Going concern.*** In August 2014, the FASB issued new accounting guidance that requires management to perform interim and annual assessments of an entity s ability to continue as a going concern within one year of the date the financial statements are issued. Disclosure is required when conditions or events raise substantial doubt about an entity s ability to continue as a going concern. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Troubled debt restructurings.*** In August 2014, the FASB issued new accounting guidance that clarifies how to account for certain government-guaranteed mortgage loans upon foreclosure. This accounting guidance will be effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and can be implemented using either a modified retrospective method or a prospective method. Early adoption is permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

***Consolidation.*** In August 2014, the FASB issued new accounting guidance that clarifies how to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a retrospective method or a cumulative-effect approach. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Stock-based compensation.*** In June 2014, the FASB issued new accounting guidance that clarifies how to account for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2015 (effective January 1, 2016, for us) and can be implemented using either a retrospective method or a prospective method. Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Transfers and servicing of financial assets.*** In June 2014, the FASB issued new accounting guidance that applies secured borrowing accounting to repurchase-to-maturity transactions and linked repurchase financings and expands disclosure requirements. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and needs to be implemented using a cumulative-effect approach to transactions outstanding as of the effective date with no adjustment to prior periods. The disclosure related to certain sales transactions will be presented for interim and annual periods beginning after December 15, 2014 (March 31, 2015, for us). The disclosure for secured borrowings will be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015 (June 30, 2015, for us). Early adoption is not permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Revenue recognition.*** In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016 (effective January 1, 2017, for us) and can be implemented using either a retrospective method or a cumulative-effect approach. Early adoption is not permitted. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

***Discontinued operations.*** In April 2014, the FASB issued new accounting guidance that revises the criteria for determining when disposals should be reported as discontinued operations and modifies the disclosure requirements. This accounting guidance will be effective prospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption is permitted. 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

***Investments in qualified affordable housing projects.*** In January 2014, the FASB issued new accounting guidance that modifies the conditions that must be met to make an election to account for investments in qualified affordable housing projects using the proportional amortization method. This accounting guidance will be effective retrospectively for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us). Early adoption is permitted. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

***Troubled debt restructurings.*** In January 2014, the FASB issued new accounting guidance that clarifies the definition of when an in substance repossession or foreclosure occurs for purposes of creditor reclassification of residential real estate collateralized consumer mortgage loans by derecognizing the loan and recognizing the collateral asset. This accounting guidance will be effective for reporting periods beginning after December 15, 2014 (effective January 1, 2015, for us) and can be implemented using either a modified retrospective method or prospective method. Early adoption is permitted. 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.

Our basic and diluted earnings per common share are calculated as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *dollars in millions, except per share amounts* | **2014** | 2013 | **2014** | 2013 |
| **EARNINGS** | | | | |
| Income (loss) from continuing operations | **$ 203** | $ 234 | **$ 694** | $ 635 |
| Less: Net income (loss) attributable to noncontrolling interests | | (1) | **6** | |
| Income (loss) from continuing operations attributable to Key | **203** | 235 | **688** | 635 |
| Less: Dividends on Series A Preferred Stock | **6** | 6 | **17** | 17 |
| Income (loss) from continuing operations attributable to Key common shareholders | **197** | 229 | **671** | 618 |
| Income (loss) from discontinued operations, net of taxes [(a), (b)] | **(17)** | 37 | **(41)** | 45 |
| Net income (loss) attributable to Key common shareholders [(b)] | **$ 180** | $ 266 | **$ 630** | $ 663 |
| **WEIGHTED-AVERAGE COMMON SHARES** | | | | |
| Weighted-average common shares outstanding (000) | **867,350** | 901,904 | **875,728** | 911,918 |
| Effect of convertible preferred stock | | | | |
| Effect of common share options and other stock awards | **6,772** | 6,349 | **6,723** | 5,661 |
| Weighted-average common shares and potential common shares outstanding (000) [(c)] | **874,122** | 908,253 | **882,451** | 917,579 |
| **EARNINGS PER COMMON SHARE** | | | | |
| Income (loss) from continuing operations attributable to Key common shareholders | **$ .23** | $ .25 | **$ .77** | $ .68 |
| Income (loss) from discontinued operations, net of taxes [(a), (b)] | **(.02)** | .04 | **(.05)** | .05 |
| Net income (loss) attributable to Key common shareholders [(b), (d)] | **.21** | .29 | **.72** | .73 |
| Income (loss) from continuing operations attributable to Key common shareholders assuming dilution | **$ .23** | $ .25 | **$ .76** | $ .67 |
| Income (loss) from discontinued operations, net of taxes [(a), (b)] | **(.02)** | .04 | **(.05)** | .05 |

| | | | | |
|---|---|---|---|---|
| Net income (loss) attributable to Key common shareholders assuming dilution [b], [d] | **.21** | .29 | **.71** | .72 |

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

(b) For the three and nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp s Form 8-K filed on November 4, 2014.

(c) Assumes conversion of common share options and other stock awards and/or convertible preferred stock, as applicable.

(d) EPS may not foot due to rounding.

Table of Contents

## 3. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

| *in millions* | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Commercial, financial and agricultural [(a)] | **$ 26,683** | $ 24,963 | $ 24,317 |
| Commercial real estate: | | | |
| Commercial mortgage | **8,276** | 7,720 | 7,544 |
| Construction | **1,036** | 1,093 | 1,058 |
| Total commercial real estate loans | **9,312** | 8,813 | 8,602 |
| Commercial lease financing [(b)] | **4,135** | 4,551 | 4,550 |
| Total commercial loans | **40,130** | 38,327 | 37,469 |
| Residential prime loans: | | | |
| Real estate residential mortgage | **2,213** | 2,187 | 2,198 |
| Home equity: | | | |
| Key Community Bank | **10,380** | 10,340 | 10,285 |
| Other | **283** | 334 | 353 |
| Total home equity loans | **10,663** | 10,674 | 10,638 |
| Total residential prime loans | **12,876** | 12,861 | 12,836 |
| Consumer other Key Community Bank | **1,546** | 1,449 | 1,440 |
| Credit cards | **724** | 722 | 698 |
| Consumer other: | | | |
| Marine | **828** | 1,028 | 1,083 |
| Other | **51** | 70 | 71 |
| Total consumer other | **879** | 1,098 | 1,154 |
| Total consumer loans | **16,025** | 16,130 | 16,128 |
| Total loans [(c)] [(d)] | **$ 56,155** | $ 54,457 | $ 53,597 |

(a) Loan balances include $90 million, $94 million, and $96 million of commercial credit card balances at September 30, 2014, December 31, 2013, and September 30, 2013, respectively.

(b) Commercial lease financing includes receivables of $367 million and $58 million held as collateral for a secured borrowing at September 30, 2014, and December 31, 2013, respectively. Principal reductions are based on the cash payments received from these related receivables. We expect to record additional commercial lease financing receivables held as collateral for a secured borrowing through the fourth quarter of 2014. Additional information pertaining to this secured borrowing is included in Note 18 ( Long-Term Debt ) beginning on page 200 of our 2013 Form 10-K.

(c) At September 30, 2014, total loans include purchased loans of $143 million, of which $14 million were PCI loans. At December 31, 2013, total loans include purchased loans of $166 million, of which $16 million were PCI loans. At September 30, 2013, total loans include purchased loans of $176 million, of which $18 million were PCI loans.

(d) Total loans exclude loans of $2.4 billion at September 30, 2014, $4.5 billion at December 31, 2013, and $4.7 billion at September 30, 2013, related to the discontinued operations of the education lending business.

Our loans held for sale are summarized as follows:

| *in millions* | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Commercial, financial and agricultural | **$ 30** | $ 278 | $ 68 |
| Real estate commercial mortgage | **725** | 307 | 608 |
| Commercial lease financing | **10** | 9 | |
| Real estate residential mortgage | **19** | 17 | 23 |
| Total loans held for sale | **$ 784** | $ 611 | $ 699 |

11

Table of Contents

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

| *in millions* | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Balance at beginning of the period | **$ 435** | $ 699 | $ 402 |
| New originations | **1,593** | 1,669 | 1,467 |
| Transfers from held to maturity, net | | 1 | 15 |
| Loan sales | **(1,243)** | (1,750) | (1,181) |
| Loan draws (payments), net | **(1)** | (8) | (4) |
| Balance at end of period | **$ 784** | $ 611 | $ 699 |

Table of Contents

## 4. Asset Quality

We assess the credit quality of the loan portfolio by monitoring net credit losses, levels of nonperforming assets and delinquencies, and credit quality ratings as defined by management.

Our nonperforming assets and past due loans were as follows:

| *in millions* | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Total nonperforming loans [(a)] | **$ 401** | $ 508 | $ 541 |
| Nonperforming loans held for sale | | 1 | 13 |
| OREO | **16** | 15 | 15 |
| Other nonperforming assets | **1** | 7 | 10 |
| Total nonperforming assets | **$ 418** | $ 531 | $ 579 |
| Nonperforming assets from discontinued operations - education lending [(b)] | **$ 9** | $ 25 | $ 23 |
| Restructured loans included in nonperforming loans | **$ 136** | $ 214 | $ 228 |
| Restructured loans with an allocated specific allowance [(c)] | **115** | 71 | 104 |
| Specifically allocated allowance for restructured loans [(d)] | **30** | 35 | 46 |
| Accruing loans past due 90 days or more | **$ 71** | $ 71 | $ 90 |
| Accruing loans past due 30 through 89 days | **340** | 318 | 288 |

(a) Loan balances exclude $14 million, $16 million, and $18 million of PCI loans at September 30, 2014, December 31, 2013, and September 30, 2013, respectively.
(b) Includes restructured loans of approximately $16 million, $13 million, and $11 million at September 30, 2014, December 31, 2013, and September 30, 2013, respectively. See Note 11 ( Acquisitions and Discontinued Operations ) for further discussion.
(c) Included in individually impaired loans allocated a specific allowance.
(d) 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 all PCI loans totaled $41 million. The estimated cash flows not expected to be collected (the nonaccretable amount) were $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, 2014, the outstanding unpaid principal balance and carrying value of all PCI loans was $21 million and $14 million, respectively. Changes in the accretable yield during 2014 included accretion and net reclassifications of less than $1 million, resulting in an ending balance of $5 million at September 30, 2014.

At September 30, 2014, the approximate carrying amount of our commercial nonperforming loans outstanding represented 62% 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 74% of their original contractual amount.

At September 30, 2014, our twenty largest nonperforming loans totaled $72 million, representing 18% of total loans on nonperforming status. At September 30, 2013, the twenty largest nonperforming loans totaled $119 million, representing 22% of total loans on nonperforming status.

Nonperforming loans and loans held for sale reduced expected interest income by $12 million for the nine months ended September 30, 2014, and $23 million for the year ended December 31, 2013.

Table of Contents

The following tables set forth a further breakdown of individually impaired loans as of September 30, 2014, December 31, 2013, and September 30, 2013:

| **September 30, 2014** *in millions* | **Recorded Investment** [a] | **Unpaid Principal Balance** [b] | **Specific Allowance** | **Average Recorded Investment** |
|---|---|---|---|---|
| With no related allowance recorded: | | | | |
| Commercial, financial and agricultural | $ 11 | $ 20 | | $ 12 |
| Commercial real estate: | | | | |
| Commercial mortgage | 22 | 27 | | 23 |
| Construction | 9 | 20 | | 7 |
| Total commercial real estate loans | 31 | 47 | | 30 |
| Total commercial loans | 42 | 67 | | 42 |
| Real estate residential mortgage | 36 | 36 | | 30 |
| Home equity: | | | | |
| Key Community Bank | 64 | 64 | | 65 |
| Other | 2 | 2 | | 2 |
| Total home equity loans | 66 | 66 | | 67 |
| Consumer other: | | | | |
| Marine | 2 | 2 | | 2 |
| Total consumer other | 2 | 2 | | 2 |
| Total consumer loans | 104 | 104 | | 99 |
| Total loans with no related allowance recorded | 146 | 171 | | 141 |
| With an allowance recorded: | | | | |
| Commercial, financial and agricultural | 20 | 21 | $ 7 | 12 |
| Commercial real estate: | | | | |
| Commercial mortgage | 7 | 7 | 2 | 5 |
| Total commercial real estate loans | 7 | 7 | 2 | 5 |
| Total commercial loans | 27 | 28 | 9 | 17 |
| Real estate residential mortgage | 19 | 19 | 4 | 24 |
| Home equity: | | | | |
| Key Community Bank | 41 | 41 | 16 | 39 |
| Other | 11 | 11 | 2 | 11 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total home equity loans | | 52 | | 52 | | 18 | 50 |
| Consumer other Key Community Bank | | 3 | | 3 | | | 3 |
| Credit cards | | 3 | | 3 | | 1 | 3 |
| Consumer other: | | | | | | | |
| Marine | | 46 | | 46 | | 5 | 47 |
| Other | | 2 | | 2 | | 1 | 2 |
| Total consumer other | | 48 | | 48 | | 6 | 49 |
| Total consumer loans | | 125 | | 125 | | 29 | 129 |
| Total loans with an allowance recorded | | 152 | | 153 | | 38 | 146 |
| Total | $ | 298 | $ | 324 | $ | 38 | $ 287 |

(a) The Recorded Investment 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, 2013 *in millions* | Recorded Investment [a] | Unpaid Principal Balance [b] | Specific Allowance | Average Recorded Investment |
|---|---|---|---|---|
| With no related allowance recorded: | | | | |
| Commercial, financial and agricultural | $ 33 | $ 69 | | $ 33 |
| Commercial real estate: | | | | |
| Commercial mortgage | 21 | 25 | | 55 |
| Construction | 48 | 131 | | 48 |
| Total commercial real estate loans | 69 | 156 | | 103 |
| Total commercial loans | 102 | 225 | | 136 |
| Real estate residential mortgage | 27 | 27 | | 24 |
| Home equity: | | | | |
| Key Community Bank | 67 | 67 | | 66 |
| Other | 2 | 2 | | 2 |
| Total home equity loans | 69 | 69 | | 68 |
| Consumer other: | | | | |
| Marine | 3 | 3 | | 2 |
| Total consumer other | 3 | 3 | | 2 |
| Total consumer loans | 99 | 99 | | 94 |
| Total loans with no related allowance recorded | 201 | 324 | | 230 |
| With an allowance recorded: | | | | |
| Commercial, financial and agricultural | 17 | 20 | $ 8 | 25 |
| Commercial real estate: | | | | |
| Commercial mortgage | 6 | 6 | 2 | 7 |
| Construction | 2 | 12 | | 1 |
| Total commercial real estate loans | 8 | 18 | 2 | 8 |
| Total commercial loans | 25 | 38 | 10 | 33 |
| Real estate residential mortgage | 29 | 29 | 9 | 23 |
| Home equity: | | | | |
| Key Community Bank | 35 | 35 | 10 | 29 |
| Other | 10 | 11 | 1 | 9 |
| Total home equity loans | 45 | 46 | 11 | 38 |
| Consumer other Key Community Bank | 3 | 3 | 1 | 2 |
| Credit cards | 5 | 5 | 1 | 3 |

| | | | | |
|---|---|---|---|---|
| Consumer other: | | | | |
| Marine | 49 | 49 | 10 | 55 |
| Other | 1 | 1 | | 1 |
| Total consumer other | 50 | 50 | 10 | 56 |
| Total consumer loans | 132 | 133 | 32 | 122 |
| Total loans with an allowance recorded | 157 | 171 | 42 | 155 |
| Total | $ 358 | $ 495 | $ 42 | $ 385 |

(a) The Recorded Investment 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, 2013** *in millions* | **Recorded Investment** [a] | **Unpaid Principal Balance** [b] | **Specific Allowance** | **Average Recorded 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 | 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 | 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 |
| 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 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 each of the nine months ended September 30, 2014, and September 30, 2013, interest income recognized on the outstanding balances of accruing impaired loans totaled $5 million.

At September 30, 2014, aggregate restructured loans (accrual and nonaccrual loans) totaled $264 million, compared to $338 million at December 31, 2013, and $349 million at September 30, 2013. We added $58 million in restructured loans during the first nine months of 2014, which were offset by $132 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, 2014, follows:

| **September 30, 2014** *dollars in millions* | **Number of loans** | **Pre-modification Outstanding Recorded Investment** | **Post-modification Outstanding Recorded Investment** |
|---|---|---|---|
| **LOAN TYPE** | | | |
| **Nonperforming:** | | | |
| Commercial, financial and agricultural | 20 | $ 16 | $ 9 |
| Commercial real estate: | | | |
| Real estate commercial mortgage | 12 | 39 | 14 |
| Real estate construction | 3 | 15 | 1 |
| Total commercial real estate loans | 15 | 54 | 15 |
| Total commercial loans | 35 | 70 | 24 |
| Real estate residential mortgage | 464 | 28 | 28 |
| Home equity: | | | |
| Key Community Bank | 1,125 | 70 | 64 |
| Other | 133 | 4 | 4 |
| Total home equity loans | 1,258 | 74 | 68 |
| Consumer other Key Community Bank | 31 | 1 | 1 |
| Credit cards | 156 | 1 | 1 |
| Consumer other: | | | |
| Marine | 211 | 16 | 14 |
| Other | 40 | 1 | 1 |
| Total consumer other | 251 | 17 | 15 |
| Total consumer loans | 2,160 | 121 | 113 |
| Total nonperforming TDRs | 2,195 | 191 | 137 |
| **Prior-year accruing** [(a)] | | | |
| Commercial, financial and agricultural | 25 | 6 | 3 |
| Commercial real estate: | | | |
| Real estate commercial mortgage | 4 | 18 | 8 |
| Total commercial real estate loans | 4 | 18 | 8 |
| Total commercial loans | 29 | 24 | 11 |
| Real estate residential mortgage | 359 | 28 | 28 |
| Home equity: | | | |
| Key Community Bank | 731 | 45 | 40 |

| | | | |
|---|---|---|---|
| Other | 325 | 10 | 8 |
| Total home equity loans | 1,056 | 55 | 48 |
| Consumer other Key Community Bank | 53 | 2 | 2 |
| Credit cards | 564 | 4 | 3 |
| Consumer other: | | | |
| Marine | 402 | 58 | 34 |
| Other | 72 | 2 | 1 |
| Total consumer other | 474 | 60 | 35 |
| Total consumer loans | 2,506 | 149 | 116 |
| Total prior-year accruing TDRs | 2,535 | 173 | 127 |
| Total TDRs | 4,730 | $ 364 | $ 264 |

(a) All TDRs that were restructured prior to January 1, 2014, and are fully accruing.

Table of Contents

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

| **December 31, 2013** *dollars in millions* | **Number of loans** | **Pre-modification Outstanding Recorded Investment** | **Post-modification Outstanding Recorded Investment** |
|---|---|---|---|
| **LOAN TYPE** | | | |
| **Nonperforming:** | | | |
| Commercial, financial and agricultural | 33 | $ 72 | $ 34 |
| Commercial real estate: | | | |
| Real estate commercial mortgage | 11 | 41 | 14 |
| Real estate construction | 6 | 19 | 4 |
| Total commercial real estate loans | 17 | 60 | 18 |
| Total commercial loans | 50 | 132 | 52 |
| Real estate residential mortgage | 676 | 43 | 43 |
| Home equity: | | | |
| Key Community Bank | 1,708 | 91 | 86 |
| Other | 227 | 6 | 6 |
| Total home equity loans | 1,935 | 97 | 92 |
| Consumer other Key Community Bank | 49 | 2 | 1 |
| Credit cards | 629 | 5 | 4 |
| Consumer other: | | | |
| Marine | 360 | 24 | 21 |
| Other | 50 | 1 | 1 |
| Total consumer other | 410 | 25 | 22 |
| Total consumer loans | 3,699 | 172 | 162 |
| Total nonperforming TDRs | 3,749 | 304 | 214 |
| **Prior-year accruing** [(a)] | | | |
| Commercial, financial and agricultural | 50 | 7 | 3 |
| Commercial real estate: | | | |
| Real estate commercial mortgage | 4 | 18 | 10 |
| Real estate construction | 1 | 23 | 42 |
| Total commercial real estate loans | 5 | 41 | 52 |
| Total commercial loans | 55 | 48 | 55 |
| Real estate residential mortgage | 119 | 12 | 12 |
| Home equity: | | | |
| Key Community Bank | 161 | 17 | 17 |

| | | | | | |
|---|---|---|---|---|---|
| Other | 212 | | 7 | | 6 |
| Total home equity loans | 373 | | 24 | | 23 |
| Consumer other Key Community Bank | 31 | | 1 | | 1 |
| Credit cards | 240 | | 2 | | 1 |
| Consumer other: | | | | | |
| Marine | 272 | | 51 | | 31 |
| Other | 54 | | 1 | | 1 |
| Total consumer other | 326 | | 52 | | 32 |
| Total consumer loans | 1,089 | | 91 | | 69 |
| Total prior-year accruing TDRs | 1,144 | | 139 | | 124 |
| Total TDRs | 4,893 | $ | 443 | $ | 338 |

(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 September 30, 2013, follows:

| **September 30, 2013**<br>*dollars in millions* | **Number of loans** | **Pre-modification Outstanding Recorded Investment** | **Post-modification Outstanding Recorded Investment** |
|---|---|---|---|
| **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 |
| 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.

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are individually evaluated for impairment to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. This designation has the effect of moving the loan from the general reserve methodology (i.e., collectively evaluated) to the specific reserve methodology (i.e., individually evaluated) and may impact the ALLL through a charge-off or increased 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. During the three months ended September 30, 2014, there were no significant commercial loan TDRs, and 93 consumer loan TDRs with a combined recorded investment of $4 million that experienced payment defaults from modifications resulting in TDR status during 2013. During the three months ended September 30, 2013, there were no significant commercial loan TDRs, and 138

Table of Contents

consumer loan TDRs with a combined recorded investment of $7 million that experienced payment defaults from modifications resulting in TDR status during 2012. As TDRs are individually evaluated for impairment under the specific reserve methodology, subsequent defaults do not generally have a significant additional impact on the ALLL.

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 the borrower s financial needs. Our concession types are primarily interest rate reductions, forgiveness of principal, and other modifications. The commercial TDR other concession category includes modification of loan terms, covenants, or conditions. The consumer TDR other concession category primarily includes those borrowers that are discharged through Chapter 7 bankruptcy and have not been formally re-affirmed.

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

| *in millions* | **September 30, 2014** | **December 31, 2013** | **September 30, 2013** |
|---|---|---|---|
| **Commercial loans:** | | | |
| Interest rate reduction | **$ 24** | $ 95 | $ 104 |
| Forgiveness of principal | **5** | 5 | 5 |
| Other | **6** | 7 | 26 |
| Total | **$ 35** | $ 107 | $ 135 |
| **Consumer loans:** | | | |
| Interest rate reduction | **$ 140** | $ 130 | $ 110 |
| Forgiveness of principal | **4** | 5 | 5 |
| Other | **85** | 96 | 99 |
| Total | **$ 229** | $ 231 | $ 214 |
| Total commercial and consumer TDRs (a) | **$ 264** | $ 338 | $ 349 |
| Total loans | **56,155** | 54,457 | 53,597 |

(a) Commitments outstanding to lend additional funds to borrowers whose loan terms have been modified in TDRs are $1 million, $15 million, and $26 million at September 30, 2014, December 31, 2013, and September 30, 2013, 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 beginning on page 117 of our 2013 Form 10-K.

At September 30, 2014, approximately $55.3 billion, or 98.5%, of our total loans were current. At September 30, 2014, total past due loans and nonperforming loans of $813 million represented approximately 1.5% of total loans.

20

Table of Contents

The following aging analysis of past due and current loans as of September 30, 2014, December 31, 2013, and September 30, 2013, provides further information regarding Key s credit exposure.

| **September 30, 2014** *in millions* | **Current** | **30-59 Days Past Due** | **60-89 Days Past Due** | **90 and Greater Days Past Due** | **Nonperforming Loans** | **Total Past Due and Nonperforming Loans** | **Purchased Credit Impaired** | **Total Loans** |
|---|---|---|---|---|---|---|---|---|
| **LOAN TYPE** | | | | | | | | |
| Commercial, financial and agricultural | $ 26,534 | $ 50 | $ 34 | $ 18 | $ 47 | $ 149 | | $ 26,683 |
| Commercial real estate: | | | | | | | | |
| Commercial mortgage | 8,201 | 17 | 7 | 9 | 41 | 74 | $ 1 | 8,276 |
| Construction | 1,017 | 3 | 2 | | 14 | 19 | | 1,036 |
| Total commercial real estate loans | 9,218 | 20 | 9 | 9 | 55 | 93 | 1 | 9,312 |
| Commercial lease financing | 4,017 | 74 | 24 | 6 | 14 | 118 | | 4,135 |
| Total commercial loans | $ 39,769 | $ 144 | $ 67 | $ 33 | $ 116 | $ 360 | $ 1 | $ 40,130 |
| Real estate residential mortgage | $ 2,091 | $ 17 | $ 7 | $ 5 | $ 81 | $ 110 | $ 12 | $ 2,213 |
| Home equity: | | | | | | | | |
| Key Community Bank | 10,124 | 46 | 19 | 16 | 174 | 255 | 1 | 10,380 |
| Other | 266 | 4 | 2 | 1 | 10 | 17 | | 283 |
| Total home equity loans | 10,390 | 50 | 21 | 17 | 184 | 272 | 1 | 10,663 |
| Consumer other Key Community Bank | 1,528 | 7 | 3 | 6 | 2 | 18 | | 1,546 |
| Credit cards | 705 | 5 | 4 | 9 | 1 | 19 | | 724 |
| Consumer other: | | | | | | | | |
| Marine | 796 | 11 | 4 | 1 | 16 | 32 | | 828 |
| Other | 49 | 1 | | | 1 | 2 | | 51 |
| Total consumer other | 845 | 12 | 4 | 1 | 17 | 34 | | 879 |
| Total consumer loans | $ 15,559 | $ 91 | $ 39 | $ 38 | $ 285 | $ 453 | $ 13 | $ 16,025 |
| Total loans | $ 55,328 | $ 235 | $ 106 | $ 71 | $ 401 | $ 813 | $ 14 | $ 56,155 |

| **December 31, 2013** *in millions* | **Current** | **30-59 Days Past Due** | **60-89 Days Past Due** | **90 and Greater** | **Nonperforming Loans** | **Total Past Due and** | **Purchased Credit Impaired** | **Total Loans** |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | **Days Past Due** | | **Nonperforming Loans** | | |
| **LOAN TYPE** | | | | | | | | |
| Commercial, financial and agricultural | $ 24,823 | $ 39 | $ 8 | $ 16 | $ 77 | $ 140 | | $ 24,963 |
| Commercial real estate: | | | | | | | | |
| Commercial mortgage | 7,638 | 20 | 7 | 17 | 37 | 81 | $ 1 | 7,720 |
| Construction | 1,068 | 10 | | 1 | 14 | 25 | | 1,093 |
| Total commercial real estate loans | 8,706 | 30 | 7 | 18 | 51 | 106 | 1 | 8,813 |
| Commercial lease financing | 4,463 | 32 | 33 | 4 | 19 | 88 | | 4,551 |
| Total commercial loans | $ 37,992 | $ 101 | $ 48 | $ 38 | $ 147 | $ 334 | $ 1 | $ 38,327 |
| Real estate residential mortgage | $ 2,038 | $ 19 | $ 5 | $ 4 | $ 107 | $ 135 | $ 14 | $ 2,187 |
| Home equity: | | | | | | | | |
| Key Community Bank | 10,038 | 51 | 31 | 14 | 205 | 301 | 1 | 10,340 |
| Other | 308 | 6 | 4 | 1 | 15 | 26 | | 334 |
| Total home equity loans | 10,346 | 57 | 35 | 15 | 220 | 327 | 1 | 10,674 |
| Consumer other Key Community Bank | 1,426 | 8 | 5 | 7 | 3 | 23 | | 1,449 |
| Credit cards | 698 | 11 | 5 | 4 | 4 | 24 | | 722 |
| Consumer other: | | | | | | | | |
| Marine | 979 | 15 | 6 | 2 | 26 | 49 | | 1,028 |
| Other | 65 | 2 | 1 | 1 | 1 | 5 | | 70 |
| Total consumer other | 1,044 | 17 | 7 | 3 | 27 | 54 | | 1,098 |
| Total consumer loans | $ 15,552 | $ 112 | $ 57 | $ 33 | $ 361 | $ 563 | $ 15 | $ 16,130 |
| Total loans | $ 53,544 | $ 213 | $ 105 | $ 71 | $ 508 | $ 897 | $ 16 | $ 54,457 |

Table of Contents

| September 30, 2013<br>*in millions* | Current | 30-59 Days Past Due | 60-89 Days Past Due | 90 and Greater Days Past Due | Nonperforming Loans | Total Past Due and Nonperforming Loans | Purchased Credit Impaired | Total Loans |
|---|---|---|---|---|---|---|---|---|
| **LOAN TYPE** | | | | | | | | |
| Commercial, financial and agricultural | $ 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 |

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 loan risk rating grades assigned for the commercial loan portfolios and the regulatory risk ratings assigned for the consumer loan portfolios.

Most extensions of credit are subject to loan grading or scoring. Loan grades are assigned at the time of origination, verified by credit risk management, and periodically re-evaluated thereafter. 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 in 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 $14 million and $18 million of PCI loans at September 30, 2014, and September 30, 2013, respectively, based on bond rating, regulatory classification, and payment activity as of September 30, 2014, and September 30, 2013, are as follows:

**Commercial Credit Exposure**

**Credit Risk Profile by Creditworthiness Category [(a)]**

**September 30,**

*in millions*

| | Commercial, financial and agricultural | | RE Commercial | | RE Construction | | Commercial Lease | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RATING [(b), (c)]** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| AAA AA | **$ 342** | $ 292 | **$ 2** | | **$ 1** | $ 1 | **$ 528** | $ 454 | **$ 873** | $ 747 |
| A | **1,147** | 774 | **2** | $ 73 | | 1 | **596** | 866 | **1,745** | 1,714 |
| BBB BB | **23,822** | 21,837 | **7,735** | 6,867 | **895** | 879 | **2,848** | 3,021 | **35,300** | 32,604 |
| B | **594** | 487 | **298** | 294 | **100** | 26 | **75** | 133 | **1,067** | 940 |
| CCC C | **778** | 927 | **238** | 308 | **40** | 151 | **88** | 76 | **1,144** | 1,462 |
| Total | **$ 26,683** | $ 24,317 | **$ 8,275** | $ 7,542 | **$ 1,036** | $ 1,058 | **$ 4,135** | $ 4,550 | **$ 40,129** | $ 37,467 |

(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*

| | Residential Prime | |
|---|---|---|
| **GRADE** | **2014** | **2013** |
| Pass | **$ 12,576** | $ 12,487 |
| Substandard | **287** | 333 |
| Total | **$ 12,863** | $ 12,820 |

**Credit Risk Profile Based on Payment Activity [(a)]**

| **September 30,** *in millions* | **Consumer Key Community Bank 2014** | **Consumer Key Community Bank 2013** | **Credit cards 2014** | **Credit cards 2013** | **Consumer Marine 2014** | **Consumer Marine 2013** | **Consumer Other 2014** | **Consumer Other 2013** | **Total 2014** | **Total 2013** |
|---|---|---|---|---|---|---|---|---|---|---|
| Performing | **$ 1,544** | $ 1,438 | **$ 723** | $ 694 | **$ 812** | $ 1,058 | **$ 50** | $ 69 | **$ 3,129** | $ 3,259 |
| Nonperforming | **2** | 2 | **1** | 4 | **16** | 25 | **1** | 2 | **20** | 33 |
| Total | **$ 1,546** | $ 1,440 | **$ 724** | $ 698 | **$ 828** | $ 1,083 | **$ 51** | $ 71 | **$ 3,149** | $ 3,292 |

(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.

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 beginning on page 118 of our 2013 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 of $2.5 million and greater, 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 the individual impairment for commercial loans and TDRs 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. Secured consumer loan TDRs that are discharged through Chapter 7 bankruptcy and not formally re-affirmed are adjusted to reflect the fair value of the underlying collateral, less costs to sell. Non-Chapter 7 consumer loan TDRs are combined in homogenous pools and assigned a specific allocation based on the estimated present value of future cash flows using the loan s effective interest rate. 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, 2014, 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, we have not changed the accounting policies or methodology that we use 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. Most consumer loans are charged off when payments are 120 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, and similar unsecured products, are charged off when payments are 180 days past due.

At September 30, 2014, the ALLL was $804 million, or 1.43% of loans, compared to $868 million, or 1.62% of loans, at September 30, 2013. At September 30, 2014, the ALLL was 200.5% of nonperforming loans, compared to 160.4% at September 30, 2013.

A summary of the ALLL for the periods indicated is presented in the table below:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *in millions* | **2014** | **2013** | **2014** | **2013** |
| Balance at beginning of period continuing operations | **$ 814** | $ 876 | **$ 848** | $ 888 |
| Charge-offs | **(49)** | (78) | **(162)** | (242) |
| Recoveries | **18** | 41 | **81** | 111 |
| Net loans and leases charged off | **(31)** | (37) | **(81)** | (131) |
| Provision for loan and lease losses from continuing operations | **21** | 28 | **37** | 111 |
| Foreign currency translation adjustment | | 1 | | |
| Balance at end of period continuing operations | **$ 804** | $ 868 | **$ 804** | $ 868 |

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

| *in millions* | December 31, 2013 | Provision | Charge-offs | Recoveries | September 30, 2014 |
|---|---|---|---|---|---|
| Commercial, financial and agricultural | $ 362 | **$ 32** | **$ (35)** | **$ 27** | **$ 386** |
| Real estate commercial mortgage | 165 | **(7)** | **(3)** | **4** | **159** |
| Real estate construction | 32 | **(16)** | **(4)** | **16** | **28** |
| Commercial lease financing | 62 | **(9)** | **(6)** | **8** | **55** |
| Total commercial loans | 621 | | **(48)** | **55** | **628** |
| Real estate residential mortgage | 37 | **(10)** | **(7)** | **2** | **22** |
| Home equity: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Key Community Bank | 84 | **9** | **(29)** | **7** | **71** |
| Other | 11 | **(1)** | **(8)** | **4** | **6** |
| Total home equity loans | 95 | **8** | **(37)** | **11** | **77** |
| Consumer other Key Community Bank | 29 | **14** | **(23)** | **4** | **24** |
| Credit cards | 34 | **24** | **(27)** | **1** | **32** |
| Consumer other: | | | | | |
| Marine | 29 | **1** | **(18)** | **7** | **19** |
| Other | 3 | | **(2)** | **1** | **2** |
| Total consumer other: | 32 | **1** | **(20)** | **8** | **21** |
| Total consumer loans | 227 | **37** | **(114)** | **26** | **176** |
| Total ALLL continuing operations | 848 | **37** | **(162)** | **81** | **804** |
| Discontinued operations | 39 | **15** | **(34)** | **11** | **31** |
| Total ALLL including discontinued operations | $ 887 | **$ 52** | **$ (196)** | **$ 92** | **$ 835** |

| *in millions* | December 31, 2012 | Provision | Charge-offs | Recoveries | September 30, 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 |
| 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 |

Our ALLL from continuing operations decreased by $64 million, or 7.4%, from the third quarter of 2013 primarily because of the improvement in the credit quality of our loan portfolios. The quality of new loan originations as well as decreasing levels of criticized, classified, and nonperforming loans and net loan charge-offs has also resulted in a reduction in our general allowance. Our general allowance applies expected loss rates to our existing loans with similar risk characteristics as well as any adjustments to reflect our current assessment of qualitative factors such as changes in economic conditions, underwriting standards, and concentrations of credit. Our delinquency trends declined during 2013 and into 2014 due to a modest level of loan growth, relatively stable economic conditions, and continued run-off in our exit loan portfolio, reflecting our effort to maintain a moderate enterprise risk tolerance.

For continuing operations, the loans outstanding individually evaluated for impairment totaled $299 million, with a corresponding allowance of $38 million at September 30, 2014. Loans outstanding collectively evaluated for impairment totaled $55.8 billion, with a corresponding allowance of $765 million at September 30, 2014. At September 30, 2014, PCI loans evaluated for impairment totaled $14 million, with a corresponding allowance of $1 million. There was no provision for loan and lease losses on these PCI loans during the nine months ended September 30, 2014. At September 30, 2013, the loans outstanding individually evaluated for impairment totaled $411 million, with a corresponding allowance of $47 million. 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 nine months ended September 30, 2013.

**Table of Contents**

A breakdown of the individual and collective ALLL and the corresponding loan balances as of September 30, 2014, follows:

| **September 30, 2014** | **Allowance** | | | **Outstanding** | | | |
|---|---|---|---|---|---|---|---|
| *in millions* | **Individually Evaluated for Impairment** | **Collectively Evaluated for Impairment** | **Purchased Credit Impaired** | **Loans** | **Individually Evaluated for Impairment** | **Collectively Evaluated for Impairment** | **Purchased Credit Impaired** |
| Commercial, financial and agricultural | $ 7 | $ 379 | | $ 26,683 | $ 31 | $ 26,652 | |
| Commercial real estate: | | | | | | | |
| Commercial mortgage | 2 | 157 | | 8,276 | 29 | 8,246 | $ 1 |
| Construction | | 28 | | 1,036 | 10 | 1,026 | |
| Total commercial real estate loans | 2 | 185 | | 9,312 | 39 | 9,272 | 1 |
| Commercial lease financing | | 55 | | 4,135 | | 4,135 | |
| Total commercial loans | 9 | 619 | | 40,130 | 70 | 40,059 | 1 |
| Real estate residential mortgage | 4 | 17 | $ 1 | 2,213 | 55 | 2,146 | 12 |
| Home equity: | | | | | | | |
| Key Community Bank | 16 | 55 | | 10,380 | 105 | 10,274 | 1 |
| Other | 2 | 4 | | 283 | 12 | 271 | |
| Total home equity loans | 18 | 59 | | 10,663 | 117 | 10,545 | 1 |
| Consumer other Key Community Bank | | 24 | | 1,546 | 4 | 1,542 | |
| Credit cards | 1 | 31 | | 724 | 3 | 721 | |
| Consumer other: | | | | | | | |
| Marine | 5 | 14 | | 828 | 48 | 780 | |
| Other | 1 | 1 | | 51 | 2 | 49 | |
| Total consumer other | 6 | 15 | | 879 | 50 | 829 | |
| Total consumer loans | 29 | 146 | 1 | 16,025 | 229 | 15,783 | 13 |
| Total ALLL continuing operations | 38 | 765 | 1 | 56,155 | 299 | 55,842 | 14 |
| Discontinued operations | 1 | 30 | | 2,392 (a) | 16 | 2,376 (a) | |
| Total ALLL including discontinued operations | $ 39 | $ 795 | $ 1 | $ 58,547 | $ 315 | $ 58,218 | $ 14 |

(a) Amount includes $201 million of portfolio 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, 2013, follows:

| **December 31, 2013**<br>*in millions* | **Allowance**<br>**Individually Evaluated for Impairment** | **Allowance**<br>**Collectively Evaluated for Impairment** | **Allowance**<br>**Purchased Credit Impaired** | **Outstanding**<br>**Loans** | **Outstanding**<br>**Individually Evaluated for Impairment** | **Outstanding**<br>**Collectively Evaluated for Impairment** | **Outstanding**<br>**Purchased Credit Impaired** |
|---|---|---|---|---|---|---|---|
| Commercial, financial and agricultural | $ 8 | $ 354 | | $ 24,963 | $ 50 | $ 24,913 | |
| Commercial real estate: | | | | | | | |
| Commercial mortgage | 2 | 163 | | 7,720 | 27 | 7,692 | $ 1 |
| Construction | | 32 | | 1,093 | 50 | 1,043 | |
| Total commercial real estate loans | 2 | 195 | | 8,813 | 77 | 8,735 | 1 |
| Commercial lease financing | | 62 | | 4,551 | | 4,551 | |
| Total commercial loans | 10 | 611 | | 38,327 | 127 | 38,199 | 1 |
| Real estate residential mortgage | 9 | 27 | $ 1 | 2,187 | 56 | 2,117 | 14 |
| Home equity: | | | | | | | |
| Key Community Bank | 10 | 74 | | 10,340 | 102 | 10,237 | 1 |
| Other | 1 | 10 | | 334 | 12 | 322 | |
| Total home equity loans | 11 | 84 | | 10,674 | 114 | 10,559 | 1 |
| Consumer other Key Community Bank | 1 | 28 | | 1,449 | 3 | 1,446 | |
| Credit cards | 1 | 33 | | 722 | 5 | 717 | |
| Consumer other: | | | | | | | |
| Marine | 10 | 19 | | 1,028 | 52 | 976 | |
| Other | | 3 | | 70 | 1 | 69 | |
| Total consumer other | 10 | 22 | | 1,098 | 53 | 1,045 | |
| Total consumer loans | 32 | 194 | 1 | 16,130 | 231 | 15,884 | 15 |
| Total ALLL continuing operations | 42 | 805 | 1 | 54,457 | 358 | 54,083 | 16 |
| Discontinued operations | 1 | 38 | | 4,497 [a] | 13 | 4,484 [a] | |
| Total ALLL including discontinued operations | $ 43 | $ 843 | $ 1 | $ 58,954 | $ 371 | $ 58,567 | $ 16 |

(a) Amount includes $2.1 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, 2013, follows:

| **September 30, 2013** *in millions* | **Allowance** Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Purchased Credit Impaired | **Loans** | **Outstanding** Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Purchased Credit Impaired |
|---|---|---|---|---|---|---|---|
| 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.

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 is $35 million at September 30, 2014. When combined with our ALLL, our total allowance for credit losses represented 1.49% of loans at September 30, 2014, compared to 1.69% at September 30, 2013.

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

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| *in millions* | **2014** | **2013** | **2014** | **2013** |
| Balance at beginning of period | **$ 37** | $ 37 | **$ 37** | $ 29 |
| Provision (credit) for losses on lending-related commitments | **(2)** | 3 | **(2)** | 11 |
| Balance at end of period | **$ 35** | $ 40 | **$ 35** | $ 40 |

27

Table of Contents

## 5. Fair Value Measurements

### Fair Value Determination

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

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

- the amount of time since the last relevant valuation;
- whether there is an actual trade or relevant external quote available at the measurement date; and
- volatility associated with the primary pricing components.

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

- an independent review and approval of valuation models and assumptions;
- recurring detailed reviews of profit and loss; and
- a validation of valuation model components against benchmark data and similar products, where possible.

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process for all lines of business and support areas, as applicable. Various Working Groups that report to the Fair Value Committee analyze and approve the underlying assumptions and valuation adjustments. Changes in valuation methodologies are presented to Fair Value Committee for approval. 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 beginning on page 119 of our 2013 Form 10-K.

**Qualitative Disclosures of Valuation Techniques**

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

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

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

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

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. We do not have any securities classified as Level 3. Our Level 3 instruments consist of certain CMBS. As of September 30, 2014, the convertible preferred security was valued based on its recent purchase price. Going forward, the security will be valued using a cash flow analysis of the associated private company issuer as determined by a third-party valuation service. The valuation of the security will be negatively impacted by a projected net loss of the associated private company and positively impacted by a projected net gain.

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 securities issued by state and political subdivisions, 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. The portion of our Real Estate Capital line of business involved with private equity and mezzanine investments is accounted for as an investment company in accordance with the applicable accounting guidance, whereby all investments are recorded at fair value.

Table of Contents

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, we obtain a third-party appraisal for the investments to validate the specific inputs for determining fair value.

Inputs used in calculating future cash flows include the cost of build-out, future selling prices, current market outlook, and operating performance of the investment. Investment income and expense assumptions are based on market inputs, such as rental/leasing rates and vacancy rates for the geographic- and property type-specific markets. For investments under construction, investment income and expense assumptions are determined using expected future build-out costs and anticipated future rental prices based on current market conditions, discount rates, holding period, the terminal cap rate, and sales commissions paid in the terminal cap year. For investments that are in lease-up or are fully leased, income and expense assumptions are based on the geographic market s current 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.

Consistent with accounting guidance, indirect investments are valued using a methodology that allows the use of 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. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of September 30, 2014, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology. For more information about the Volcker Rule, see the discussion under the heading Other regulatory developments under the Dodd-Frank Act Volcker Rule in the section entitled Supervision and Regulation in Item 1 of our 2013 Form 10-K.

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, 2014. We did not provide any financial support to investees related to our direct and indirect investments for the three and nine months ended September 30, 2014, and September 30, 2013.

| | September 30, 2014 | |
|---|---|---|
| *in millions* | **Fair Value** | **Unfunded Commitments** |

| | | |
|---|---|---|
| **INVESTMENT TYPE** | | |
| Indirect investments | | |
| Passive funds [(a)] | $ 9 | $ 1 |
| Co-managed funds [(b)] | 4 | |
| Total | $ 13 | $ 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 four years. The purpose of KREEC s funding is to allow funds to make additional investments and keep a certain market value threshold in the funds. KREEC is obligated to provide financial support, as all investors are required, to fund based on their ownership percentage, as noted in the Limited Partnership Agreements.

(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 one to three years. The purpose of KREEC s funding is to allow funds to make additional investments and keep a certain market value threshold in the funds. KREEC is obligated to provide financial support, as all investors are required, to fund based on their ownership percentage, as noted in the Limited Partnership Agreements.

Table of Contents

***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) and indirect investments (investments made through funds that include other investors). Our principal investing entities are accounted for as investment companies in accordance with the applicable accounting guidance, whereby 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 (individuals from one of the independent investment managers who oversee these instruments), accounting staff, and the Investment Committee (individual employees and a former employee of Key and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

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

Interest-bearing securities (i.e., loans) are valued on a quarterly basis. Valuation adjustments are determined by the Principal Investing Entities Deal Team and are subject to approval by the Investment Committee. Valuations of debt instruments are based on the Principal Investing Entities Deal Team s knowledge of the current financial status of the subject company, which is regularly monitored throughout the term of the investment. Significant unobservable inputs used in the valuations of these investments include the company s payment history, adequacy of cash flows from operations, and current operating results, including market multiples and historical and forecast earnings before interest, taxation, depreciation, and amortization (EBITDA). 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. The valuation analysis is reviewed by the Principal Investing Entities Deal Team Member, and 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. Under the requirements of the Volcker Rule, we will be required to dispose of some or all of our indirect investments. As of September 30, 2014, management has not committed to a plan to sell these investments. Therefore, these investments continue to be valued using the net asset value per share methodology.

For indirect investments, management may make adjustments it deems appropriate to the net asset value 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.

Table of Contents

The following table presents the fair value of our direct and indirect principal investments and related unfunded commitments at September 30, 2014, as well as financial support provided for the three and nine months ended September 30, 2014, and September 30, 2013:

| | | | Financial support provided | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Three months ended September 30, | | | | Nine months ended September 30, | | | |
| | September 30, 2014 | | 2014 | | 2013 | | 2014 | | 2013 | |
| *in millions* | **Fair Value** | **Unfunded Commitments** | **Funded Commitments** | **Funded Other** | **Funded Commitments** | **Funded Other** | **Funded Commitments** | **Funded Other** | **Funded Commitments** | **Funded Other** |
| **INVESTMENT TYPE** | | | | | | | | | | |
| Direct investments [(a)] | **$ 115** | | | | | $ 3 | | **$ 2** | | $ 8 |
| Indirect investments [(b)] | **353** | **$ 65** | **$ 3** | | $ 3 | | **$ 10** | | $ 14 | |
| Total | **$ 468** | **$ 65** | **$ 3** | | $ 3 | $ 3 | **$ 10** | **$ 2** | $ 14 | $ 8 |

(a) Our direct investments consist of equity, mezzanine, and debt investments directly in independent business enterprises. Operations of the business enterprises are handled by management of the portfolio company. The purpose of funding these enterprises is to provide financial support for business development and acquisition strategies. We infuse equity capital based on an initial contractual cash contribution and later from additional requests on behalf of the companies management.

(b) Our indirect investments consist of buyout funds, venture capital funds, and fund of funds. These investments are generally not redeemable. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds typically 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. The purpose of funding our capital commitments to these investments is to allow the funds to make additional follow-on investments and pay fund expenses until the fund dissolves. We, and all other investors in the fund, are obligated to fund the full amount of our respective capital commitments to the fund based on our and their respective ownership percentages, as noted in the applicable Limited Partnership Agreement.

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

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

Market convention implies a credit rating of AA equivalent in the pricing of derivative contracts, which assumes all counterparties have the same creditworthiness. To reflect the actual exposure on our derivative contracts related to both counterparty and our own creditworthiness, we record a fair value adjustment in the form of a credit valuation adjustment. The credit component is determined by individual counterparty based on the probability of default and considers master netting and collateral agreements. The credit valuation adjustment is classified as Level 3. Our Market Risk Management group is responsible for the valuation policies and procedure related to this credit valuation adjustment. 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 credit valuation adjustment calculation, which includes a detailed reserve comparison with the previous quarter, an analysis for change in reserve, and a reserve forecast to ensure that the credit valuation adjustment recorded at period end is sufficient.

Table of Contents

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

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

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at September 30, 2014, December 31, 2013, and September 30, 2013.

Table of Contents

| **September 30, 2014** *in millions* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **ASSETS MEASURED ON A RECURRING BASIS** | | | | |
| Trading account assets: | | | | |
| U.S. Treasury, agencies and corporations | | $ 596 | | $ 596 |
| States and political subdivisions | | 24 | | 24 |
| Collateralized mortgage obligations | | | | |
| Other mortgage-backed securities | | 186 | | 186 |
| Other securities | $ 13 | 145 | | 158 |
| Total trading account securities | 13 | 951 | | 964 |
| Commercial loans | | 1 | | 1 |
| Total trading account assets | 13 | 952 | | 965 |
| Securities available for sale: | | | | |
| States and political subdivisions | | 27 | | 27 |
| Collateralized mortgage obligations | | 10,009 | | 10,009 |
| Other mortgage-backed securities | | 2,177 | | 2,177 |
| Other securities | 22 | | $ 10 | 32 |
| Total securities available for sale | 22 | 12,213 | 10 | 12,245 |
| Other investments: | | | | |
| Principal investments: | | | | |
| Direct | | | 115 | 115 |
| Indirect | | | 353 | 353 |
| Total principal investments | | | 468 | 468 |
| Equity and mezzanine investments: | | | | |
| Direct | | | | |
| Indirect | | | 13 | 13 |
| Total equity and mezzanine investments | | | 13 | 13 |
| Total other investments | | | 481 | 481 |
| Derivative assets: | | | | |
| Interest rate | | 827 | 19 | 846 |
| Foreign exchange | 73 | 8 | | 81 |
| Commodity | | 95 | | 95 |
| Credit | | 1 | 3 | 4 |
| Derivative assets | 73 | 931 | 22 | 1,026 |
| Netting adjustments [(a)] | | | | (613) |
| Total derivative assets | 73 | 931 | 22 | 413 |
| Accrued income and other assets | | | | |
| Total assets on a recurring basis at fair value | $ 108 | $ 14,096 | $ 513 | $ 14,104 |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES MEASURED ON A RECURRING BASIS** | | | | |
| Bank notes and other short-term borrowings: | | | | |
| Short positions | $ 6 | $ 490 | | $ 496 |
| Derivative liabilities: | | | | |
| Interest rate | | 616 | | 616 |
| Foreign exchange | 55 | 9 | | 64 |
| Commodity | | 89 | $ 1 | 90 |
| Credit | | 7 | | 7 |
| Derivative liabilities | 55 | 721 | 1 | 777 |
| Netting adjustments [(a)] | | | | (393) |
| Total derivative liabilities | 55 | 721 | 1 | 384 |
| Accrued expense and other liabilities | | | | |
| Total liabilities on a recurring basis at fair value | $ 61 | $ 1,211 | $ 1 | $ 880 |

(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, 2013**<br>*in millions* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **ASSETS MEASURED ON A RECURRING BASIS** | | | | |
| Trading account assets: | | | | |
| U.S. Treasury, agencies and corporations | | $ 471 | | $ 471 |
| States and political subdivisions | | 23 | | 23 |
| Collateralized mortgage obligations | | 9 | | 9 |
| Other mortgage-backed securities | | 120 | | 120 |
| Other securities | $ 4 | 108 | | 112 |
| Total trading account securities | 4 | 731 | | 735 |
| Commercial loans | | 3 | | 3 |
| Total trading account assets | 4 | 734 | | 738 |
| Securities available for sale: | | | | |
| States and political subdivisions | | 40 | | 40 |
| Collateralized mortgage obligations | | 11,000 | | 11,000 |
| Other mortgage-backed securities | | 1,286 | | 1,286 |
| Other securities | 20 | | | 20 |
| Total securities available for sale | 20 | 12,326 | | 12,346 |
| Other investments: | | | | |
| Principal investments: | | | | |
| Direct | | | $ 141 | 141 |
| Indirect | | | 413 | 413 |
| Total principal investments | | | 554 | 554 |
| Equity and mezzanine investments: | | | | |
| Direct | | | | |
| Indirect | | | 23 | 23 |
| Total equity and mezzanine investments | | | 23 | 23 |
| Total other investments | | | 577 | 577 |
| Derivative assets: | | | | |
| Interest rate | | 1,014 | 25 | 1,039 |
| Foreign exchange | 56 | 7 | | 63 |
| Commodity | | 112 | | 112 |
| Credit | | 1 | 4 | 5 |
| Derivative assets | 56 | 1,134 | 29 | 1,219 |
| Netting adjustments [(a)] | | | | (812) |
| Total derivative assets | 56 | 1,134 | 29 | 407 |
| Accrued income and other assets | | 1 | | 1 |
| Total assets on a recurring basis at fair value | $ 80 | $ 14,195 | $ 606 | $ 14,069 |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES MEASURED ON A RECURRING BASIS** | | | | |
| Bank notes and other short-term borrowings: | | | | |
| Short positions | $ 2 | $ 341 | | $ 343 |
| Derivative liabilities: | | | | |
| Interest rate | | 739 | | 739 |
| Foreign exchange | 49 | 8 | | 57 |
| Commodity | | 106 | | 106 |
| Credit | | 11 | $ 1 | 12 |
| Derivative liabilities | 49 | 864 | 1 | 914 |
| Netting adjustments [(a)] | | | | (500) |
| Total derivative liabilities | 49 | 864 | 1 | 414 |
| Accrued expense and other liabilities | | 1 | | 1 |
| Total liabilities on a recurring basis at fair value | $ 51 | $ 1,206 | $ 1 | $ 758 |

(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, 2013**<br>*in millions* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **ASSETS MEASURED ON A RECURRING BASIS** | | | | |
| 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 |
| Commodity | | 137 | | 137 |
| Credit | | 2 | 4 | 6 |
| 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 | | | | |
| Total assets on a recurring basis at fair value | $ 90 | $ 14,643 | $ 636 | $ 14,500 |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES MEASURED ON A RECURRING BASIS** | | | | |
| Bank notes and other short-term borrowings: | | | | |
| Short positions | $ 4 | $ 458 | | $ 462 |
| Derivative liabilities: | | | | |
| Interest rate | | 798 | | 798 |
| Foreign exchange | 59 | 10 | | 69 |
| Commodity | | 130 | $ 1 | 131 |
| Credit | | 10 | 1 | 11 |
| 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 | $ 1,539 | $ 2 | $ 1,045 |

(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, 2014, and September 30, 2013. We mitigate the credit risk, interest rate risk, and risk of loss related to many of these Level 3 instruments by using securities and derivative positions classified as Level 1 or Level 2. Level 1 and Level 2 instruments are not included in the following table. Therefore, the gains or losses shown do not include the impact of our risk management activities.

| *in millions* | **Beginning of Period Balance** | **Gains (Losses) Included in Earnings** | **Purchases** | **Sales** | **Settlements** | **Transfers into Level 3 [e]** | **Transfers out of Level 3 [e]** | **End of Period Balance [g]** | **Unrealized Gains (Losses) Included in Earnings** |
|---|---|---|---|---|---|---|---|---|---|
| **Nine months ended September 30, 2014** | | | | | | | | | |
| Securities available for sale | | | | | | | | | |
| Other securities | | | $ 10 | | | | | $ 10 | |
| Other investments | | | | | | | | | |
| Principal investments | | | | | | | | | |
| Direct | $ 141 | $ 9 [c] | 1 | $ (36) | | | | 115 | $ 18 [c] |
| Indirect | 413 | 49 [c] | 8 | (117) | | | | 353 | 8 [c] |
| Equity and mezzanine investments | | | | | | | | | |
| Direct | | | | | | | | | |
| Indirect | 23 | (1) [c] | | | $ (9) | | | 13 | (1) [c] |
| Derivative instruments [a] | | | | | | | | | |
| Interest rate | 25 | 2 [d] | 3 | (2) | | $ 7 [f] | $ (16) [f] | 19 | |
| Commodity | | | (1) | | | 1 [f] | (1) [f] | (1) | |
| Credit | 3 | (7) [d] | | | 7 | | | 3 | |
| **Three months ended September 30, 2014** | | | | | | | | | |
| Securities available for sale | | | | | | | | | |
| Other securities | | | $ 10 | | | | | $ 10 | |
| Other investments | | | | | | | | | |
| Principal investments | | | | | | | | | |
| Direct | $ 146 | $ (2) [c] | | $ (29) | | | | 115 | $ (2) [c] |
| Indirect | 399 | 9 [c] | 3 | (58) | | | | 353 | (4) [c] |
| Equity and mezzanine investments | | | | | | | | | |
| Direct | | | | | | | | | |
| Indirect | 16 | | | | $ (3) | | | 13 | |
| Derivative instruments [a] | | | | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest rate | 20 | | | $ 2 (f) | $ (3) (f) | 19 |
| Commodity | 1 | (1) | | | (1) (f) | (1) |
| Credit | 3 | (2) (d) | 2 | | | 3 |

37

**Table of Contents**

| *in millions* | Beginning of Period Balance | Gains (Losses) Included in Earnings | Purchases | Sales | Settlements | Transfers into Level 3 [e] | Transfers out of Level 3 [e] | End of Period Balance [g] | Unrealized Gains (Losses) Included in Earnings |
|---|---|---|---|---|---|---|---|---|---|
| **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) | | | | | |
| Other investments | | | | | | | | | |
| Principal investments | | | | | | | | | |
| Direct | 191 | (9) [c] | $ 7 | (21) | | | | $ 168 | (19) [c] |
| Indirect | 436 | 37 [c] | 14 | (70) | | | | 417 | 13 [c] |
| Equity and mezzanine investments | | | | | | | | | |
| Direct | | | | | | | | | 8 [c] |
| Indirect | 41 | 1 [c] | | | (14) | | | 28 | 1 [c] |
| Derivative instruments [a] | | | | | | | | | |
| Interest rate | 19 | (10) [d] | | (1) | | $ 39 [f] | $ (28) [f] | 19 | |
| Commodity | 1 | (2) [d] | | | | | | (1) | |
| Credit | 4 | (6) [d] | | | 5 | | | 3 | |
| **Three months ended September 30, 2013** | | | | | | | | | |
| Trading account assets | | | | | | | | | |
| Other mortgage-backed securities | | | | | | | | | |
| Other securities | | $ 1 [b] | | | $ (1) | | | | $ (2) [b] |
| State and political subdivisions | | | | | | | | | |
| Other investments | | | | | | | | | |
| Principal investments | | | | | | | | | |
| Direct | $ 186 | (4) [c] | $ 3 | $ (17) | | | | $ 168 | (8) [c] |
| Indirect | 426 | 18 [c] | 3 | (30) | | | | 417 | 9 [c] |
| Equity and mezzanine investments | | | | | | | | | |
| Direct | | | | | | | | | 5 [c] |
| Indirect | 32 | (1) [c] | | | (3) | | | 28 | (1) [c] |
| Derivative instruments [a] | | | | | | | | | |
| Interest rate | 25 | (7) [d] | | | | | $ 1 [f] | 19 | |
| Commodity | 1 | (2) [d] | | | | | | (1) | |

| | | | | |
|---|---|---|---|---|
| Credit | 4 | (3) [(d)] | 2 | 3 |

(a) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.
(b) Realized and unrealized gains and losses on trading account assets are reported in "other income" on the income statement.
(c) Realized and unrealized gains and losses on principal investments are reported in "net gains (losses) from principal investing" on the income statement. Realized and unrealized losses on private equity and mezzanine investments are reported in "other income" on the income statement.
(d) Realized and unrealized gains and losses on derivative instruments are reported in "corporate services income" and "other income" on the income statement.
(e) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.
(f) Certain derivatives previously classified as Level 2 were transferred to Level 3 because Level 3 unobservable inputs became significant. Certain derivatives previously classified as Level 3 were transferred to Level 2 because Level 3 unobservable inputs became less significant.
(g) There were no issuances for the nine-month periods ended September 30, 2014, and September 30, 2013.

Table of Contents

### Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally result from the application of accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment. The following table presents our assets measured at fair value on a nonrecurring basis at September 30, 2014, December 31, 2013, and September 30, 2013:

| | September 30, 2014 | | | |
|---|---|---|---|---|
| *in millions* | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS MEASURED ON A NONRECURRING BASIS** | | | | |
| Impaired loans | | | $ 6 | $ 6 |
| Loans held for sale [(a)] | | | | |
| Accrued income and other assets | | | 51 | 51 |
| Total assets on a nonrecurring basis at fair value | | | $ 57 | $ 57 |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| *in millions* | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS MEASURED ON A NONRECURRING BASIS** | | | | |
| Impaired loans | | | $ 16 | $ 16 |
| Loans held for sale [(a)] | | | | |
| Accrued income and other assets | | | 14 | 14 |
| Total assets on a nonrecurring basis at fair value | | | $ 30 | $ 30 |

| | September 30, 2013 | | | |
|---|---|---|---|---|
| *in millions* | Level 1 | Level 2 | Level 3 | Total |
| **ASSETS MEASURED ON A NONRECURRING BASIS** | | | | |
| Impaired loans | | | $ 26 | $ 26 |
| Loans held for sale [(a)] | | | | |
| Accrued income and other assets | | $ 1 | 10 | 11 |
| Total assets on a nonrecurring basis at fair value | | $ 1 | $ 36 | $ 37 |

(a) During the first nine months of 2014, we transferred $10 million of commercial and consumer loans and leases at their current fair value from held-for-sale status to the held-to-maturity portfolio, compared to $9 million during 2013 and $2 million during the first nine months of 2013.

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

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

Loans are evaluated for impairment on a quarterly basis. Loans included in the previous quarter s review are re-evaluated and if their values have changed materially, the underlying information (loan balance and in most cases, collateral value) is compared. Material differences are evaluated for reasonableness, and the relationship managers and their senior managers consider these differences and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis based on current borrower developments, market conditions, and collateral values.

Table of Contents

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

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

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

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

***Loans held for sale***. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming loans, we determine any adjustments necessary to record the portfolios at the lower of cost or fair value in accordance with GAAP. Our analysis concluded that there were no loans held for sale adjusted to fair value at September 30, 2014, December 31, 2013, or September 30, 2013.

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

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

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

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

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. KEF has master sale and assignment agreements with numerous institutional investors. Historically, multiple quotes are obtained, with the most reasonable formal quotes retained. These nonbinding quotes generally lead to a sale to one of the parties who provided the quote. Leases for which we receive a current nonbinding bid, and the sale is considered probable, may be classified as Level 2. The validity of these quotes is supported by historical and continued dealings with these institutions that have fulfilled the nonbinding quote in the past. In a distressed market where market data is not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. KEF Accounting calculates an estimated fair value buy rate based on the credit premium inherent in the relevant bond index and the appropriate swap rate on the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

***Goodwill and other intangible assets.*** On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. Accounting guidance permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. However, we did not choose to utilize a qualitative assessment in our annual goodwill impairment testing performed during the fourth quarter of 2013. Fair value of our reporting units is determined using both an income approach (discounted cash flow method) and a market approach (using publicly traded company and recent transactions data), which are weighted equally.

Inputs used include market-available data, such as industry, historical, and expected growth rates, and peer valuations, as well as internally driven inputs, such as forecasted earnings and market participant insights. Since this valuation relies on a significant number of unobservable inputs, we have classified goodwill as Level 3. We use a third-party valuation services provider to perform the annual, and if necessary, any interim, Step 1 valuation process, and to perform a Step 2 analysis, if needed, on our reporting units. Annual and any interim valuations prepared by the third-party valuation services provider are reviewed by the appropriate individuals within Key to ensure that the assumptions used in preparing the analysis are appropriate and properly supported. For additional information on the results of recent goodwill impairment testing, see Note 10 ( Goodwill and Other Intangible Assets ) beginning on page 171 of our 2013 Form 10-K.

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

Our primary assumptions include attrition rates, alternative costs of funds, and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10 ( Goodwill and Other Intangible Assets ) beginning on page 171 of our 2013 Form 10-K.

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

Commercial Real Estate Valuation Process: When a loan is reclassified from loan status to OREO because we took possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our

OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third-party sources, our OREO group also writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, where the accepted price is lower than the current balance of the particular OREO asset. The fair value of OREO property is re-evaluated every 90 days and the OREO asset is adjusted as necessary.

Consumer Real Estate Valuation Process: The Asset Management team within our Risk Operations group is responsible for valuation policies and procedures in this area. The current vendor partner provides monthly reporting of all broker price opinion evaluations, appraisals, and the monthly market plans. Market plans are reviewed monthly, and valuations are reviewed and tested monthly to ensure proper pricing has been established and guidelines are being met. Risk Operations Compliance validates and provides periodic testing of the valuation process. The Asset Management team reviews changes in fair value measurements. Third-party broker price opinions are reviewed every 180 days, and the fair value is written down based on changes to the valuation. External factors are documented and monitored as appropriate.

Table of Contents

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

**Quantitative Information about Level 3 Fair Value Measurements**

The range and weighted-average of the significant unobservable inputs used to fair value our material Level 3 recurring and nonrecurring assets at September 30, 2014, December 31, 2013, and September 30, 2013, along with the valuation techniques used, are shown in the following table:

| **September 30, 2014**<br>*dollars in millions* | **Fair Value of Level 3 Assets** | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|---|
| **Recurring** | | | | |
| Other investments principal investments direct: | $ 115 | Individual analysis of the condition of each investment | | |
| Debt instruments | | | EBITDA multiple | 6.00 - 6.40 (6.30) |
| Equity instruments of private companies | | | EBITDA multiple (where applicable) | 5.50 - 6.00 (5.70) |
| | | | Revenue multiple (where applicable) | 4.30 - 4.30 (4.30) |
| **Nonrecurring** | | | | |
| Impaired loans | 6 | Fair value of underlying collateral | Discount | 10.00 - 90.00% (24.00%) |
| Goodwill | 1,051 | Discounted cash flow and market data | Earnings multiple of peers | 10.10 - 14.40 (11.59) |
| | | | Equity multiple of peers | 1.17 - 1.29 (1.24) |
| | | | Control premium | N/A (35.00%) |
| | | | Weighted-average cost of capital | N/A (13.00%) |

| **December 31, 2013**<br>*dollars in millions* | **Fair Value of Level 3 Assets** | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|---|
| **Recurring** | | | | |
| Other investments principal investments direct: | $ 141 | Individual analysis of the condition of each investment | | |
| Debt instruments | | | EBITDA multiple | 6.00 - 7.00 (6.10) |
| Equity instruments of private companies | | | EBITDA multiple (where applicable) | 4.80 - 10.40 (6.20) |

| | | | | |
|---|---|---|---|---|
| | | | Revenue multiple (where applicable) | 1.10 - 4.70 (4.00) |
| **Nonrecurring** | | | | |
| Impaired loans | 16 | Fair value of underlying collateral | Discount | 10.00 - 100.00% (36.00%) |
| Goodwill | 979 | Discounted cash flow and market data | Earnings multiple of peers | 10.10 - 14.40 (11.59) |
| | | | Equity multiple of peers | 1.17 - 1.29 (1.24) |
| | | | Control premium | N/A (35.00%) |
| | | | Weighted-average cost of capital | N/A (13.00%) |

**September 30, 2013**

| *dollars in millions* | **Fair Value of Level 3 Assets** | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|---|
| **Recurring** | | | | |
| Other investments principal investments direct: | $ 168 | Individual analysis of the condition of each investment | | |
| Debt instruments | | | EBITDA multiple | 5.80 - 7.20 (6.00) |
| Equity instruments of private companies | | | EBITDA multiple (where applicable) | 4.70 - 9.60 (6.30) |
| | | | Revenue multiple (where applicable) | 1.00 - 4.80 (4.10) |
| **Nonrecurring** | | | | |
| Impaired loans | 26 | Fair value of underlying collateral | Discount | 10.00 - 100.00% (35.00%) |
| Goodwill | 979 | Discounted cash flow and market data | Earnings multiple of peers | 9.70 - 14.20 (11.25) |
| | | | Equity multiple of peers | .95 - 1.17 (1.09) |
| | | | Control premium | N/A (30.00%) |
| | | | Weighted-average cost of capital | N/A (13.00%) |

Table of Contents

**Fair Value Disclosures of Financial Instruments**

The levels in the fair value hierarchy ascribed to our financial instruments and the related carrying amounts at September 30, 2014, December 31, 2013, and September 30, 2013, are shown in the following table.

| | September 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | | Fair Value | | | | |
| *in millions* | Carrying Amount | Level 1 | Level 2 | Level 3 | Netting Adjustment | Total |
| **ASSETS** | | | | | | |
| Cash and short-term investments [a] | **$ 2,993** | **$ 2,993** | | | | **$ 2,993** |
| Trading account assets [b] | **965** | **13** | **$ 952** | | | **965** |
| Securities available for sale [b] | **12,245** | **22** | **12,213** | **$ 10** | | **12,245** |
| Held-to-maturity securities [c] | **4,997** | | **4,911** | | | **4,911** |
| Other investments [b] | **822** | | **341** | **481** | | **822** |
| Loans, net of allowance [d] | **55,351** | | | **53,996** | | **53,996** |
| Loans held for sale [b] | **784** | | | **784** | | **784** |
| Mortgage servicing assets [e] | **308** | | | **370** | | **370** |
| Derivative assets [b] | **413** | **73** | **931** | **22** | **$ (613)** [f] | **413** |
| **LIABILITIES** | | | | | | |
| Deposits with no stated maturity [a] | **$ 62,028** | | **$ 62,028** | | | **$ 62,028** |
| Time deposits [e] | **6,428** | **$ 556** | **5,937** | | | **6,493** |
| Short-term borrowings [a] | **1,653** | **6** | **1,647** | | | **1,653** |
| Long-term debt [e] | **7,172** | **6,854** | **1,202** | | | **8,056** |
| Derivative liabilities [b] | **384** | **55** | **721** | **$ 1** | **$ (393)** [f] | **384** |

| | December 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | Fair Value | | | | |
| *in millions* | Carrying Amount | Level 1 | Level 2 | Level 3 | Netting Adjustment | Total |
| **ASSETS** | | | | | | |
| Cash and short-term investments [a] | $ 6,207 | $ 6,207 | | | | $ 6,207 |
| Trading account assets [b] | 738 | 4 | $ 734 | | | 738 |
| Securities available for sale [b] | 12,346 | 20 | 12,326 | | | 12,346 |
| Held-to-maturity securities [c] | 4,756 | | 4,617 | | | 4,617 |
| Other investments [b] | 969 | | 392 | $ 577 | | 969 |
| Loans, net of allowance [d] | 53,609 | | | 52,102 | | 52,102 |
| Loans held for sale [b] | 611 | | | 611 | | 611 |
| Mortgage servicing assets [e] | 332 | | | 386 | | 386 |
| Derivative assets [b] | 407 | 56 | 1,134 | 29 | $ (812) [f] | 407 |
| **LIABILITIES** | | | | | | |
| Deposits with no stated maturity [a] | $ 62,425 | | $ 62,425 | | | $ 62,425 |
| Time deposits [e] | 6,837 | $ 558 | 6,368 | | | 6,926 |
| Short-term borrowings [a] | 1,877 | 2 | 1,875 | | | 1,877 |
| Long-term debt [e] | 7,650 | 7,611 | 397 | | | 8,008 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Derivative liabilities (b) | 414 | 49 | 864 | $ 1 | $ (500) (f) | 414 |

| | | September 30, 2013 | | | | |
|---|---|---|---|---|---|---|
| | | Fair Value | | | | |
| *in millions* | **Carrying Amount** | **Level 1** | **Level 2** | **Level 3** | **Netting Adjustment** | **Total** |
| **ASSETS** | | | | | | |
| Cash and short-term investments (a) | $ 4,283 | $ 3,767 | $ 516 | | | $ 4,283 |
| Trading account assets (b) | 806 | 6 | 800 | | | 806 |
| Securities available for sale (b) | 12,606 | 24 | 12,582 | | | 12,606 |
| Held-to-maturity securities (c) | 4,835 | | 4,730 | | | 4,730 |
| Other investments (b) | 1,007 | | 394 | $ 613 | | 1,007 |
| Loans, net of allowance (d) | 52,729 | | | 51,301 | | 51,301 |
| Loans held for sale (b) | 699 | | | 699 | | 699 |
| Mortgage servicing assets (e) | 331 | | | 388 | | 388 |
| Derivative assets (b) | 475 | 60 | 1,261 | 23 | $ (869) (f) | 475 |
| **LIABILITIES** | | | | | | |
| Deposits with no stated maturity (a) | $ 61,399 | | $ 61,399 | | | $ 61,399 |
| Time deposits (e) | 7,136 | $ 605 | 6,632 | | | 7,237 |
| Short-term borrowings (a) | 1,921 | 4 | 1,917 | | | 1,921 |
| Long-term debt (e) | 6,154 | 6,192 | 265 | | | 6,457 |
| Derivative liabilities (b) | 450 | 59 | 948 | $ 2 | $ (559) (f) | 450 |

**Table of Contents**

Valuation Methods and Assumptions

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

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

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

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

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

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

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. We determine fair value based on assumptions pertaining to the factors that a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2013 and the first nine months of 2014, the fair values of our loan portfolios have generally remained stable, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change. Also, because the applicable accounting guidance for financial instruments excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements, the fair value amounts shown in the table above do not, by themselves, represent the underlying value of our company as a whole.

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

Loans at carrying value, net of allowance, of $2.1 billion ($1.9 billion at fair value) at September 30, 2014, $2.4 billion ($2.0 billion at fair value) at December 31, 2013, and $2.4 billion ($2.0 billion at fair value) at September 30, 2013;

Portfolio loans at fair value of $201 million at September 30, 2014, $147 million at December 31, 2013, and $148 million at September 30, 2013; and

Loans in the trusts at fair value of $2.0 billion at December 31, 2013, and $2.1 billion at September 30, 2013. Securities issued by the education lending securitization trusts, which are the primary liabilities of the trusts, totaling $1.8 billion in fair value at December 31, 2013, and $2.0 billion in fair value at September 30, 2013, are also excluded from the above table.

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

On September 30, 2014, we sold the residual interests in all of our outstanding education loan securitization trusts to a third party. With that transaction, we deconsolidated the securitization trusts and removed the trust assets and liabilities from our balance sheet at September 30, 2014. Additional information regarding the sale of the residual interests and deconsolidation of the securitization trusts is provided in Note 11 ( Acquisitions and Discontinued Operations ).

***Residential real estate mortgage loans.*** Residential real estate mortgage loans with carrying amounts of $2.2 billion at September 30, 2014, December 31, 2013, and September 30, 2013, are included in Loans, net of allowance in the previous table.

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

Table of Contents

## 6. Securities

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

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

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

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

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

The amortized cost, unrealized gains and losses, and approximate fair value of our securities available for sale and held-to-maturity securities are presented in the following tables. Gross unrealized gains and losses represent the difference between the amortized cost and the fair value of securities on the balance sheet as of the dates indicated. Accordingly, the amount of these gains and losses may change in the future as market conditions change.

Table of Contents

| *in millions* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | **September 30, 2014** | | | |
| **SECURITIES AVAILABLE FOR SALE** | | | | |
| States and political subdivisions | **$ 26** | **$ 1** | | **$ 27** |
| Collateralized mortgage obligations | **10,096** | **109** | **$ 196** | **10,009** |
| Other mortgage-backed securities | **2,156** | **24** | **3** | **2,177** |
| Other securities | **28** | **4** | | **32** |
| Total securities available for sale | **$ 12,306** | **$ 138** | **$ 199** | **$ 12,245** |
| **HELD-TO-MATURITY SECURITIES** | | | | |
| Collateralized mortgage obligations | **$ 4,977** | **$ 10** | **$ 96** | **$ 4,891** |
| Other securities | **20** | | | **20** |
| Total held-to-maturity securities | **$ 4,997** | **$ 10** | **$ 96** | **$ 4,911** |

| *in millions* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | **December 31, 2013** | | | |
| **SECURITIES AVAILABLE FOR SALE** | | | | |
| States and political subdivisions | $ 39 | $ 1 | | $ 40 |
| Collateralized mortgage obligations | 11,120 | 152 | $ 272 | 11,000 |
| Other mortgage-backed securities | 1,270 | 27 | 11 | 1,286 |
| Other securities | 17 | 3 | | 20 |
| Total securities available for sale | $ 12,446 | $ 183 | $ 283 | $ 12,346 |
| **HELD-TO-MATURITY SECURITIES** | | | | |
| Collateralized mortgage obligations | $ 4,736 | $ 6 | $ 145 | $ 4,597 |
| Other securities | 20 | | | 20 |
| Total held-to-maturity securities | $ 4,756 | $ 6 | $ 145 | $ 4,617 |

| *in millions* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | **September 30, 2013** | | | |
| **SECURITIES AVAILABLE FOR SALE** | | | | |
| States and political subdivisions | $ 40 | $ 1 | | $ 41 |
| Collateralized mortgage obligations | 11,810 | 194 | $ 225 | 11,779 |
| Other mortgage-backed securities | 733 | 31 | 2 | 762 |
| Other securities | 20 | 4 | | 24 |

| | | | | |
|---|---|---|---|---|
| Total securities available for sale | $ 12,603 | $ 230 | $ 227 | $ 12,606 |
| **HELD-TO-MATURITY SECURITIES** | | | | |
| Collateralized mortgage obligations | $ 4,815 | $ 10 | $ 115 | $ 4,710 |
| Other securities | 20 | | | 20 |
| Total held-to-maturity securities | $ 4,835 | $ 10 | $ 115 | $ 4,730 |

**Table of Contents**

The following table summarizes our securities that were in an unrealized loss position as of September 30, 2014, December 31, 2013, and September 30, 2013.

| | Duration of Unrealized Loss Position | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| *in millions* | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses (a) | Fair Value | Gross Unrealized Losses |
| **September 30, 2014** | | | | | | |
| Securities available for sale: | | | | | | |
| Collateralized mortgage obligations | **$ 605** | **$ 7** | **$ 4,379** | **$ 189** | **$ 4,984** | **$ 196** |
| Other mortgage-backed securities | **811** | **1** | **81** | **2** | **892** | **3** |
| Other securities | **1** | | **2** | | **3** | |
| Held-to-maturity: | | | | | | |
| Collateralized mortgage obligations | **1,288** | **13** | **2,342** | **83** | **3,630** | **96** |
| Other securities | | | | | | |
| Total temporarily impaired securities | **$ 2,705** | **$ 21** | **$ 6,804** | **$ 274** | **$ 9,509** | **$ 295** |
| **December 31, 2013** | | | | | | |
| Securities available for sale: | | | | | | |
| Collateralized mortgage obligations | $ 5,122 | $ 261 | $ 157 | $ 11 | $ 5,279 | $ 272 |
| Other mortgage-backed securities | 856 | 11 | | | 856 | 11 |
| Other securities | 2 | | | | 2 | |
| Held-to-maturity: | | | | | | |
| Collateralized mortgage obligations | 3,969 | 145 | | | 3,969 | 145 |
| Other securities | 2 | | | | 2 | |
| Total temporarily impaired securities | $ 9,951 | $ 417 | $ 157 | $ 11 | $ 10,108 | $ 428 |
| **September 30, 2013** | | | | | | |
| Securities available for sale: | | | | | | |
| Collateralized mortgage obligations | $ 5,380 | $ 225 | | | $ 5,380 | $ 225 |
| Other mortgage-backed securities | 94 | 2 | | | 94 | 2 |
| Other securities | 2 | | | | 2 | |
| Held-to-maturity: | | | | | | |
| Collateralized mortgage obligations | 3,659 | 115 | | | 3,659 | 115 |
| Other securities | 5 | | | | 5 | |
| Total temporarily impaired securities | $ 9,140 | $ 342 | | | $ 9,140 | $ 342 |

(a) There were less than $1 million of gross unrealized losses for the period ended September 30, 2013.

At September 30, 2014, we had $196 million of gross unrealized losses related to 63 fixed-rate CMOs that we invested in as part of our overall A/LM strategy. These securities had a weighted-average maturity of 4.5 years at September 30, 2014. Since these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. We also had $3 million of gross unrealized losses related to 25 other mortgage-backed securities positions, which had a weighted-average maturity of 4.2 years at September 30, 2014. These unrealized losses are considered temporary since we expect to collect all contractually due amounts from these securities. Accordingly, these investments were reduced to their fair value through OCI, not earnings.

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

The debt securities identified to have OTTI are written down to their current fair value. For those debt securities that we intend to sell, or more-likely-than-not will be required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component of AOCI on the balance sheet. As shown in the following table, we did not have any impairment losses recognized in earnings for the three months ended September 30, 2014.

Table of Contents

| **Three months ended September 30, 2014** | |
|---|---|
| *in millions* | |
| **Balance at June 30, 2014** | $ 4 |
| Impairment recognized in earnings | |
| **Balance at September 30, 2014** | $ 4 |

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

| **Nine months ended September 30, 2014** | |
|---|---|
| *in millions* | |
| Realized gains | |
| Realized losses | |
| Net securities gains (losses) | |

At September 30, 2014, securities available for sale and held-to-maturity securities totaling $9.6 billion were pledged to secure securities sold under repurchase agreements, to secure public and trust deposits, to facilitate access to secured funding, and for other purposes required or permitted by law.

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

| | **Securities Available for Sale** | | **Held-to-Maturity Securities** | |
|---|---|---|---|---|
| **September 30, 2014** | **Amortized** | **Fair** | **Amortized** | **Fair** |
| *in millions* | **Cost** | **Value** | **Cost** | **Value** |
| Due in one year or less | $ 272 | $ 277 | $ 9 | $ 9 |
| Due after one through five years | 11,406 | 11,351 | 4,855 | 4,774 |
| Due after five through ten years | 625 | 614 | 133 | 128 |
| Due after ten years | 3 | 3 | | |
| Total | $ 12,306 | $ 12,245 | $ 4,997 | $ 4,911 |

Table of Contents

## 7. Derivatives and Hedging Activities

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

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

- interest rate risk represents the possibility that the EVE or net interest income will be adversely affected by fluctuations in interest rates;
- credit risk is the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms; and
- foreign exchange risk is the risk that an exchange rate will adversely affect the fair value of a financial instrument.

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

At September 30, 2014, after taking into account the effects of bilateral collateral and master netting agreements, we had $66 million of derivative assets and $11 million of derivative liabilities that relate to contracts entered into for hedging purposes. As of the same date, after taking into account the effects of bilateral collateral and master netting agreements and a reserve for potential future losses, we had derivative assets of $347 million and derivative liabilities of $373 million that were not designated as hedging instruments.

The Dodd-Frank Act, which is currently being implemented, may limit the types of derivative activities that KeyBank and other insured depository institutions may conduct. As a result, we may not continue the use of some of the types of derivatives noted above in the future. For further information, please see the section entitled Supervision and Regulation in Item 1. Business of our 2013 Form 10-K.

Additional information regarding our accounting policies for derivatives is provided in Note 1 ( Summary of Significant Accounting Policies ) under the heading Derivatives beginning on page 122 of our 2013 Form 10-K.

### Derivatives Designated in Hedge Relationships

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

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

Similarly, we designate certain receive fixed/pay variable interest rate swaps as cash flow hedges. These contracts effectively convert certain floating-rate loans into fixed-rate loans to reduce the potential adverse effect of interest rate decreases on future interest income. Again, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts.

Table of Contents

We also designate certain "pay fixed/receive variable" interest rate swaps as cash flow hedges. These swaps convert certain floating-rate debt into fixed-rate debt. We also use these swaps to manage the interest rate risk associated with anticipated sales of certain commercial real estate loans. The swaps protect against the possible short-term decline in the value of the loans that could result from changes in interest rates between the time they are originated and the time they are sold.

Interest rate swaps are also used to hedge the floating-rate debt that funds fixed-rate leases entered into by our equipment finance line of business. These swaps are designated as cash flow hedges to mitigate the interest rate mismatch between the fixed-rate lease cash flows and the floating-rate payments on the debt. These hedge relationships were terminated during the quarter ended March 31, 2014.

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

**Derivatives Not Designated in Hedge Relationships**

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at September 30, 2014, was not significant.

Like other financial services institutions, we originate loans and extend credit, both of which expose us to credit risk. We actively manage our overall loan portfolio and the associated credit risk in a manner consistent with asset quality objectives and concentration risk tolerances to mitigate portfolio credit risk. Purchasing credit default swaps enables us to transfer to a third party a portion of the credit risk associated with a particular extension of credit, including situations where there is a forecasted sale of loans. Beginning in the first quarter of 2014, we began purchasing credit default swaps to reduce the credit risk associated with the debt securities held in our trading portfolio. We may also sell credit derivatives to offset our purchased credit default swap position prior to maturity. Although we use credit default swaps for risk management purposes, they are not treated as hedging instruments.

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

- interest rate swap, cap, and floor contracts entered into generally to accommodate the needs of commercial loan clients;
- energy and base metal swap and options contracts entered into to accommodate the needs of clients;
- futures contracts and positions with third parties that are intended to offset or mitigate the interest rate or market risk related to client positions discussed above; and
- foreign exchange forward contracts and options entered into primarily to accommodate the needs of clients.

These contracts are not designated as part of hedge relationships.

Table of Contents

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

The following table summarizes the fair values of our derivative instruments on a gross and net basis as of September 30, 2014, December 31, 2013, and September 30, 2013. The change in the notional amounts of these derivatives by type from December 31, 2013, to September 30, 2014, indicates the volume of our derivative transaction activity during the first nine months of 2014. The notional amounts are not affected by bilateral collateral and master netting agreements. The derivative asset and liability balances are presented on a gross basis, prior to the application of bilateral collateral and master netting agreements. Total derivative assets and liabilities are adjusted to take into account the impact of legally enforceable master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related cash collateral. Where master netting agreements are not in effect or are not enforceable under bankruptcy laws, we do not adjust those derivative assets and liabilities with counterparties. Securities collateral related to legally enforceable master netting agreements is not offset on the balance sheet. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

| | **September 30, 2014** | | | **December 31, 2013** | | | **September 30, 2013** | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **Fair Value** | | | **Fair Value** | | | **Fair Value** | |
| **in millions** | **Notional Amount** | **Derivative Assets** | **Derivative Liabilities** | **Notional Amount** | **Derivative Assets** | **Derivative Liabilities** | **Notional Amount** | **Derivative Assets** | **Derivative Liabilities** |
| Derivatives designated as hedging instruments: | | | | | | | | | |
| Interest rate | **$ 13,946** | **$ 237** | **$ 44** | $ 14,487 | $ 306 | $ 37 | $ 13,762 | $ 332 | $ 36 |
| Foreign exchange | **413** | **13** | | 190 | 4 | 1 | 190 | | 1 |
| Total | **14,359** | **250** | **44** | 14,677 | 310 | 38 | 13,952 | 332 | 37 |
| Derivatives not designated as hedging instruments: | | | | | | | | | |
| Interest rate | **42,088** | **608** | **572** | 46,173 | 733 | 702 | 47,315 | 799 | 762 |
| Foreign exchange | **4,433** | **69** | **64** | 4,701 | 59 | 56 | 4,479 | 70 | 68 |
| Commodity | **1,780** | **95** | **90** | 1,616 | 112 | 106 | 1,890 | 137 | 131 |
| Credit | **618** | **4** | **7** | 910 | 5 | 12 | 971 | 6 | 11 |
| Total | **48,919** | **776** | **733** | 53,400 | 909 | 876 | 54,655 | 1,012 | 972 |
| Netting adjustments [(a)] | | **(613)** | **(393)** | | (812) | (500) | | (869) | (559) |
| Net derivatives in the balance sheet | **63,278** | **413** | **384** | 68,077 | 407 | 414 | 68,607 | 475 | 450 |
| Other collateral [(b)] | | **(71)** | **(268)** | | (72) | (287) | | (81) | (356) |
| Net derivative amounts | **$ 63,278** | **$ 342** | **$ 116** | $ 68,077 | $ 335 | $ 127 | $ 68,607 | $ 394 | $ 94 |

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

***Fair value hedges.*** Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the nine-month period ended September 30, 2014, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of September 30, 2014.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the nine-month periods ended September 30, 2014, and September 30, 2013, and where they are recorded on the income statement.

**Nine months ended September 30, 2014**

| *in millions* | **Income Statement Location of Net Gains (Losses) on Derivative** | **Net Gains (Losses) on Derivative** | **Hedged Item** | **Income Statement Location of Net Gains (Losses) on Hedged Item** | **Net Gains (Losses) on Hedged Item** |
|---|---|---|---|---|---|
| Interest rate | Other income | **$ (21)** | Long-term debt | Other income | **$ 21** [(a)] |
| Interest rate | Interest expense – Long-term debt | **91** | | | |
| Total | | **$ 70** | | | **$ 21** |

**Nine months ended September 30, 2013**

| *in millions* | **Income Statement Location of Net Gains (Losses) on Derivative** | **Net Gains (Losses) on Derivative** | **Hedged Item** | **Income Statement Location of Net Gains (Losses) on Hedged Item** | **Net Gains (Losses) on Hedged Item** |
|---|---|---|---|---|---|
| Interest rate | Other income | $ (167) | Long-term debt | Other income | $ 167 [(a)] |
| Interest rate | Interest expense – Long-term debt | 97 | | | |
| Total | | $ (70) | | | $ 167 |

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

***Cash flow hedges.*** Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet. This amount is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans, or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in "other income" on the income statement. During the nine-month period ended September 30, 2014, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some immaterial ineffectiveness in our hedging relationships, all of our cash flow hedges remained "highly effective" as of September 30, 2014.

Table of Contents

Considering the interest rates, yield curves, and notional amounts as of September 30, 2014, we would expect to reclassify an estimated $20 million of net losses on derivative instruments from AOCI to income during the next twelve months for our cash flow hedges. In addition, we expect to reclassify approximately $5 million of net gains related to terminated cash flow hedges from AOCI to income during the next twelve months. As of September 30, 2014, the maximum length of time over which we hedge forecasted transactions is 14 years.

***Net investment hedges.*** We enter into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of or liquidate a foreign subsidiary). At September 30, 2014, AOCI reflected unrecognized after-tax gains totaling $11 million related to cumulative changes in the fair value of our net investment hedges, which offset the unrecognized after-tax foreign currency losses on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement, but there was no net investment hedge ineffectiveness as of September 30, 2014. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness during the three-month period ended September 30, 2014.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the nine-month periods ended September 30, 2014, and September 30, 2013, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

| | Nine months ended September 30, 2014 | | | | |
|---|---|---|---|---|---|
| *in millions* | **Net Gains (Losses) Recognized in OCI (Effective Portion)** | **Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)** | **Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)** | **Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)** | **Net Gains (Losses) Recognized in Income (Ineffective Portion)** |
| **Cash Flow Hedges** | | | | | |
| Interest rate | $ 27 | Interest income Loans | $ 49 | Other income | |
| Interest rate | (5) | Interest expense Long-term debt | (3) | Other income | |
| Interest rate | (1) | Investment banking and debt placement fees | | Other income | |
| **Net Investment Hedges** | | | | | |
| Foreign exchange contracts | 17 | Other Income | | Other income | |
| Total | $ 38 | | $ 46 | | |

| | Nine months ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| *in millions* | Net Gains (Losses) Recognized in OCI (Effective Portion) | Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion) | Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion) | Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion) | Net Gains (Losses) Recognized in Income (Ineffective Portion) |
| **Cash Flow Hedges** | | | | | |
| Interest rate | $ (25) | Interest income Loans | $ 52 | Other income | |
| Interest rate | 18 | Interest expense Long-term debt | (7) | Other income | |
| Interest rate | (2) | Investment banking and debt placement fees | | Other income | |
| **Net Investment Hedges** | | | | | |
| Foreign exchange contracts | 6 | Other Income | (3) | Other income | |
| Total | $ (3) | | $ 42 | | |

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

| *in millions* | December 31, 2013 | 2014 Hedging Activity | Reclassification of Gains to Net Income | September 30, 2014 |
|---|---|---|---|---|
| AOCI resulting from cash flow and net investment hedges | $ (11) | **$ 25** | **$ (29)** | **$ (15)** |

52

Table of Contents

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

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the nine-month periods ended September 30, 2014, and September 30, 2013, and where they are recorded on the income statement.

| | **Nine months ended September 30, 2014** | | | **Nine months ended September 30, 2013** | | |
|---|---|---|---|---|---|---|
| *in millions* | **Corporate Services Income** | **Other Income** | **Total** | **Corporate Services Income** | **Other Income** | **Total** |
| **NET GAINS (LOSSES)** | | | | | | |
| Interest rate | **$ 11** | | **$ 11** | $ 13 | | $ 13 |
| Foreign exchange | **25** | | **25** | 29 | | 29 |
| Commodity | **3** | | **3** | 4 | | 4 |
| Credit | | **$ (16)** | **(16)** | 1 | $ (11) | (10) |
| Total net gains (losses) | **$ 39** | **$ (16)** | **$ 23** | $ 47 | $ (11) | $ 36 |

**Counterparty Credit Risk**

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with standard ISDA documentation, central clearing rules, and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises, or GNMA. The cash collateral netted against derivative assets on the balance sheet totaled $230 million at September 30, 2014, $308 million at December 31, 2013, and $327 million at September 30, 2013. The cash collateral netted against derivative liabilities totaled $10 million at September 30, 2014, $4 million at December 31, 2013, and $17 million at September 30, 2013. The relevant agreements that allow us to access the central clearing organizations to clear derivative transactions are not considered to be qualified master netting agreements. Therefore, we cannot net derivative contracts or offset those contracts with related cash collateral with these counterparties. At September 30, 2014, we posted $51 million of cash collateral with clearing organizations. This additional cash collateral is included in accrued income and other assets and accrued expense and other liabilities on the balance sheet.

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

| *in millions* | **September 30, 2014** | **December 31, 2013** | **September 30, 2013** |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Largest gross exposure (derivative asset) to an individual counterparty | **$ 106** | $ 121 | $ 129 |
| Collateral posted by this counterparty | **44** | 42 | 44 |
| Derivative liability with this counterparty | **103** | 106 | 123 |
| Collateral pledged to this counterparty | **47** | 33 | 45 |
| Net exposure after netting adjustments and collateral | **6** | 6 | 7 |

Table of Contents

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

| *in millions* | **September 30, 2014** | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Interest rate | **$ 556** | $ 633 | $ 708 |
| Foreign exchange | **39** | 23 | 28 |
| Commodity | **47** | 58 | 65 |
| Credit | **1** | 1 | 1 |
| Derivative assets before collateral | **643** | 715 | 802 |
| Less: Related collateral | **230** | 308 | 327 |
| Total derivative assets | **$ 413** | $ 407 | $ 475 |

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

We enter into transactions with broker-dealers and banks for various risk management purposes. These types of transactions generally are high dollar volume. We generally enter into bilateral collateral and master netting agreements with these counterparties. We began clearing certain types of derivative transactions with these counterparties in June 2013, whereby the central clearing organizations become our counterparties subsequent to novation of the original derivative contracts. In addition, we began entering into derivative contracts through swap execution facilities during the quarter ended March 31, 2014. The swap clearing and swap trade execution requirements were mandated by the Dodd-Frank Act for the purpose of reducing counterparty credit risk and increasing transparency in the derivative market. At September 30, 2014, we had gross exposure of $456 million to broker-dealers and banks. We had net exposure of $115 million after the application of master netting agreements and cash collateral, where such qualifying agreements exist. We had net exposure of $15 million after considering $100 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures, and entering into offsetting positions and other derivative contracts. Due to the smaller size and magnitude of the individual contracts with clients, we generally do not exchange collateral in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a credit valuation adjustment (included in derivative assets ) in the amount of $11 million at September 30, 2014, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2013, the credit valuation adjustment was $14 million. At September 30, 2014, we had gross exposure of $330 million to client counterparties for derivatives that have associated master netting agreements. We had net exposure of $298 million on our derivatives with clients after the application of master netting agreements, collateral, and the related reserve.

**Credit Derivatives**

We are both a buyer and seller of credit protection through the credit derivative market. We purchase credit derivatives to manage the credit risk associated with specific commercial lending and swap obligations as well as exposures to debt securities. We may also sell credit derivatives, mainly single-name credit default swaps, to offset our purchased credit default swap position prior to maturity.

The following table summarizes the fair value of our credit derivatives purchased and sold by type as of September 30, 2014, December 31, 2013, and September 30, 2013. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

| | **September 30, 2014** | | | **December 31, 2013** | | | **September 30, 2013** | | |
|---|---|---|---|---|---|---|---|---|---|
| *in millions* | **Purchased** | **Sold** | **Net** | **Purchased** | **Sold** | **Net** | **Purchased** | **Sold** | **Net** |
| Single-name credit default swaps | **$ (1)** | | **$ (1)** | $ (7) | $ 1 | $ (6) | $ (4) | | $ (4) |
| Traded credit default swap indices | **(2)** | | **(2)** | | | | (1) | | (1) |
| Other | | | | | (1) | (1) | | | |
| Total credit derivatives | **$ (3)** | | **$ (3)** | $ (7) | | $ (7) | $ (5) | | $ (5) |

Single-name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protection against the credit risk of a specific entity (the reference entity ) in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring

54

Table of Contents

of obligations, identified in the credit derivative contract. As the seller of a single-name credit derivative, we may settle in one of two ways if the underlying reference entity experiences a predefined credit event. We may be required to pay the purchaser the difference between the par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement). If we effect a physical settlement and receive our portion of the related debt obligation, we will join other creditors in the liquidation process, which may enable us to recover a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

A traded credit default swap index represents a position on a basket or portfolio of reference entities. As a seller of protection on a credit default swap index, we would be required to pay the purchaser if one or more of the entities in the index had a credit event. Upon a credit event, the amount payable is based on the percentage of the notional amount allocated to the specific defaulting entity.

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

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at September 30, 2014, December 31, 2013, and September 30, 2013. The notional amount represents the maximum amount that the seller could be required to pay. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities debt obligations using a Moody s credit ratings matrix known as Moody s Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

| | **September 30, 2014** | | | **December 31, 2013** | | | **September 30, 2013** | | |
|---|---|---|---|---|---|---|---|---|---|
| *dollars in millions* | **Notional Amount** | **Average Term (Years)** | **Payment / Performance Risk** | **Notional Amount** | **Average Term (Years)** | **Payment / Performance Risk** | **Notional Amount** | **Average Term (Years)** | **Payment / Performance Risk** |
| Single-name credit default swaps | **$ 5** | **.97** | **.87%** | $ 55 | .77 | 22.28 % | $ 67 | .91 | 21.26 % |
| Other | **6** | **2.92** | **5.59** | 13 | 5.03 | 8.82 | 16 | 5.11 | 8.72 |
| Total credit derivatives sold | **$ 11** | | | $ 68 | | | $ 83 | | |

**Credit Risk Contingent Features**

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody s and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody s and BBB- for S&P). At September 30, 2014, KeyBank s ratings were A3 with Moody s and A- with S&P, and KeyCorp s ratings were Baa1 with Moody s and with S&P. As of September 30, 2014, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) held by KeyBank that were in a net liability position totaled $278 million, which includes $220 million in derivative assets and $498 million in derivative liabilities. We had $276 million in cash and securities collateral posted to cover those positions as of September 30, 2014. The aggregate fair value of all derivative contracts with credit risk contingent features held by KeyCorp as of September 30, 2014, that were in a net liability position totaled $4 million, which consists solely of derivative liabilities. We had $2 million in collateral posted to cover those positions as of September 30, 2014.

The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver under the ISDA Master Agreements had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of September 30, 2014, December 31, 2013, and September 30, 2013. The additional collateral amounts were calculated based on scenarios under which KeyBank s ratings are downgraded one, two, or three ratings as of September 30, 2014, and take into account all collateral already posted. A similar calculation was performed for KeyCorp, and additional collateral of $3 million would have been required as of September 30, 2014, less than $1 million as of December 31, 2013, and $2 million as of September 30, 2013.

| | **September 30, 2014** | | **December 31, 2013** | | **September 30, 2013** | |
|---|---|---|---|---|---|---|
| *in millions* | **Moody s** | **S&P** | **Moody s** | **S&P** | **Moody s** | **S&P** |
| KeyBank s long-term senior unsecured credit ratings | **A3** | **A-** | A3 | A- | A3 | A- |
| One rating downgrade | **$ 1** | **$ 1** | $ 6 | $ 6 | $ 6 | $ 6 |
| Two rating downgrades | **4** | **4** | 11 | 11 | 11 | 11 |
| Three rating downgrades | **6** | **6** | 11 | 11 | 11 | 11 |

KeyBank s long-term senior unsecured credit rating is currently four ratings above noninvestment grade at Moody s and S&P. If KeyBank s ratings had been downgraded below investment grade as of September 30, 2014, payments of up to $8 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. If KeyCorp s ratings had been downgraded below investment grade as of September 30, 2014, payments of $3 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

Table of Contents

## 8. Mortgage Servicing Assets

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

| | Nine months ended September 30, | |
|---|---|---|
| *in millions* | **2014** | **2013** |
| Balance at beginning of period | **$ 332** | $ 204 |
| Servicing retained from loan sales | **19** | 31 |
| Purchases | **33** | 144 [a] |
| Amortization | **(76)** | (48) |
| Balance at end of period | **$ 308** | $ 331 |
| Fair value at end of period | **$ 370** | $ 388 |

(a) Amount includes $118 million in mortgage servicing assets that were acquired during the second and third quarters of 2013. See Note 11 ( Acquisitions and Discontinued Operations ) for further details regarding this acquisition.

The fair value of mortgage servicing assets is determined by calculating the present value of future cash flows associated with servicing the loans. This calculation uses a number of assumptions that are based on current market conditions. The range and weighted-average of the significant unobservable inputs used to fair value our mortgage servicing assets at September 30, 2014, and September 30, 2013, along with the valuation techniques, are shown in the following table:

**September 30, 2014**

| *dollars in millions* | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|
| Mortgage servicing assets | Discounted cash flow | Prepayment speed | 1.90 - 12.30%(5.90%) |
| | | Expected defaults | 1.00 - 3.00%(1.90%) |
| | | Residual cash flows discount rate | 7.00 - 14.10%(7.80%) |
| | | Escrow earn rate | 0.50 - 3.10%(1.70%) |
| | | Servicing cost | $150 - $2,700($1,053) |
| | | Loan assumption rate | 0.20 - 3.00%(1.52%) |
| | | Percentage late | 0.00 - 2.00%(0.32%) |

| **September 30, 2013** | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|

*dollars in millions*

| | | | |
|---|---|---|---|
| Mortgage servicing assets | Discounted cash flow | Prepayment speed | 0.00 - 25.00%(6.20%) |
| | | Expected defaults | 1.10 - 3.00%(2.10%) |
| | | Residual cash flows discount rate | 7.00 - 15.00%(8.00%) |
| | | Escrow earn rate | 0.35 - 3.58%(1.90%) |
| | | Servicing cost | $150 - $9,296($1,039) |
| | | Loan assumption rate | 0.00 - 3.00%(1.54%) |
| | | Percentage late | 0.00 - 2.00%(0.33%) |

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may also change. The volume of loans serviced, expected credit losses, and the value assigned to escrow deposits are critical to the valuation of servicing assets. At September 30, 2014, a 1.00% decrease in the value assigned to the escrow deposits would cause a $56 million decrease in the fair value of our mortgage servicing assets. An increase in the assumed default rate of commercial mortgage loans of 1.00% would cause a $6 million decrease in the fair value of our mortgage servicing assets.

Contractual fee income from servicing commercial mortgage loans totaled $35 million for the nine-month period ended September 30, 2014, and $37 million for the nine-month period ended September 30, 2013. We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as shown in the table at the beginning of this note, is recorded as a reduction to fee income. Both the contractual fee income and the amortization are recorded in mortgage servicing fees on the income statement.

Additional information pertaining to the accounting for mortgage and other servicing assets is included in Note 1 ( Summary of Significant Accounting Policies ) under the heading Servicing Assets on page 123 of our 2013 Form 10-K and Note 11 ( Acquisitions and Discontinued Operations ) under the heading Mortgage Servicing Rights in this report.

Table of Contents

## 9. Variable Interest Entities

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

- The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.
- The entity s investors lack the power to direct the activities that most significantly impact the entity s economic performance.
- The entity s equity at risk holders do not have the obligation to absorb losses or the right to receive residual returns.
- The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity s activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

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

On September 30, 2014, we sold the residual interests in all of our outstanding education loan securitization trusts and therefore no longer have a significant interest in those trusts. We deconsolidated the securitization trusts as of September 30, 2014, and removed the trust assets and liabilities from our balance sheet. Further information regarding these education securitization trusts is provided in Note 11 ( Acquisitions and Discontinued Operations ) under the heading Education lending.

| | Consolidated VIEs | | Unconsolidated VIEs | | |
|---|---|---|---|---|---|
| *in millions* | Total Assets | Total Liabilities | Total Assets | Total Liabilities | Maximum Exposure to Loss |
| September 30, 2014 | | | | | |
| LIHTC funds | $ 1 | $ 2 | $ 55 | | |
| LIHTC investments | N/A | N/A | 775 | | $ 508 |

Our involvement with VIEs is described below.

**Consolidated VIEs**

***LIHTC guaranteed funds.*** KAHC formed limited partnership funds that invested in LIHTC operating partnerships. Interests in these funds were offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndication fees from the guaranteed funds and continue to earn asset management fees. The guaranteed funds assets, primarily investments in LIHTC operating partnerships, totaled $6 million at September 30,

2014. These investments are recorded in accrued income and other assets on the balance sheet and serve as collateral for the guaranteed funds limited obligations.

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

In accordance with the applicable accounting guidance for distinguishing liabilities from equity, third-party interests associated with our LIHTC guaranteed funds are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on the balance sheet. However, the FASB has indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeemable third-party interests associated with finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust our financial statements each period for the third-party investors share of the guaranteed funds profits and losses. At September 30, 2014, we estimated the settlement value of these third-party interests to be between zero and $5 million, while the recorded value, including reserves, totaled $6 million. The partnership agreement for each of our guaranteed funds requires the fund to be dissolved by a certain date.

Table of Contents

**Unconsolidated VIEs**

***LIHTC nonguaranteed funds.*** Although we hold interests in certain nonguaranteed funds that we formed and funded, we have determined that we are not the primary beneficiary because we do not absorb the majority of the funds expected losses and do not have the power to direct activities that most significantly influence the economic performance of these entities. At September 30, 2014, assets of these unconsolidated nonguaranteed funds totaled $55 million. Our maximum exposure to loss in connection with these funds is minimal, and we do not have any liability recorded related to the funds. We have not formed nonguaranteed funds since October 2003.

***LIHTC investments.*** Through Key Community Bank, we have made investments directly in LIHTC operating partnerships formed by third parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated with the underlying properties. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly influence the economic performance of their respective partnerships and have the obligation to absorb expected losses and the right to receive benefits. At September 30, 2014, assets of these unconsolidated LIHTC operating partnerships totaled approximately $775 million. At September 30, 2014, our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $402 million plus $106 million of tax credits claimed but subject to recapture. We do not have any liability recorded related to these investments because we believe the likelihood of any loss is remote. We have not obtained any significant direct investments (either individually or in the aggregate) in LIHTC operating partnerships since September 2003.

We have additional investments in unconsolidated LIHTC operating partnerships that are held by the consolidated LIHTC guaranteed funds. Total assets of these operating partnerships were approximately $470 million at September 30, 2014. The tax credits and deductions associated with these properties are allocated to the funds investors based on their ownership percentages. We have determined that we are not the primary beneficiary of these partnerships because the general partners have the power to direct the activities that most significantly impact their economic performance, and the obligation to absorb expected losses and right to receive residual returns. Information regarding our exposure to loss in connection with these guaranteed funds is included in Note 15 under the heading Return guarantee agreement with LIHTC investors.

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

Table of Contents

## 10. Income Taxes

### Income Tax Provision

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

The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 24.1% for the third quarter of 2014 and 20.1% for the third quarter of 2013. The effective tax rates are below our combined federal and state statutory tax rate of 37.2% primarily due to income from investments in tax-advantaged assets such as corporate-owned life insurance and credits associated with investments in low-income housing projects. During the third quarter and the first nine months of 2014, our effective tax rate was lower due to a settlement with the IRS on tax refund claims for prior years, partially offset by the write-off of a foreign deferred tax asset due to the sale of certain foreign leasing assets. Our effective tax rate was also lower in the first nine months of 2014 due to the early termination of certain leveraged leases that resulted in non-taxable gains pursuant to a prior settlement with the IRS.

### Deferred Tax Asset

At September 30, 2014, from continuing operations, we had a net federal deferred tax asset of $153 million and a net state deferred tax asset of $19 million compared to a net federal deferred tax asset of $201 million and a net state deferred tax asset of $9 million at December 31, 2013, and a net federal deferred tax asset of $219 million and a net state deferred tax asset of $9 million at September 30, 2013, included in accrued income and other assets on the balance sheet. To determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded, we conduct a quarterly assessment of all available evidence. This evidence includes, but is not limited to, taxable income in prior periods, projected future taxable income, and projected future reversals of deferred tax items. These assessments involve a degree of subjectivity and may undergo change. Based on these criteria, we have a valuation allowance of $1 million at September 30, 2014, $1 million at December 31, 2013, and $2 million at September 30, 2013, associated with certain state net operating loss carryforwards and state credit carryforwards.

### Unrecognized Tax Benefits

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

The FASB issued new accounting guidance, effective January 1, 2014, for us, that requires unrecognized tax benefits to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if certain criteria are met. As a result, at September 30, 2014, our federal tax credit carryforward included in our federal deferred tax asset was reduced by $1 million.

Table of Contents

## 11. Acquisitions and Discontinued Operations

### Acquisitions

***Pacific Crest Securities.*** On September 3, 2014, we acquired Pacific Crest Securities, a leading technology-focused investment bank and capital markets firm based in Portland, Oregon. This acquisition, which is being accounted for as a business combination, expands our corporate and investment banking business unit and adds technology to our other industry verticals. We recorded estimated identifiable intangible assets of $28 million and estimated goodwill of $72 million in Key Corporate Bank for this acquisition during the third quarter of 2014. The identifiable intangible assets and the goodwill related to this acquisition are non-deductible for tax purposes. The fair value estimates relating to this acquisition represent our best estimate of fair value and are expected to be finalized during the fourth quarter of 2014.

***Mortgage Servicing Rights.*** On June 24, 2013, in the first of multiple closings, we acquired substantially all third-party commercial loan servicing rights consisting of CMBS Master, Primary, and Special Servicing as well as other servicing from Bank of America s Global Mortgages & Securitized Products business. Simultaneously, we entered into a subservicing agreement with Berkadia Commercial Mortgage LLC related to all CMBS primary servicing. This acquisition was accounted for as a business combination and aligned with our strategy to drive growth. At the time, the acquisition resulted in KeyBank becoming the third largest servicer of commercial/multifamily loans in the U.S. and the fifth largest special servicer of CMBS. The acquisition date fair value of the MSRs acquired on June 24, 2013, which were included on our balance sheet at June 30, 2013, was approximately $117 million. Three additional and related closings occurred on July 22, 2013, August 26, 2013, and October 7, 2013. The acquisition date fair value of the MSRs acquired in these transactions was $3 million. As a result of this acquisition, the total fair value of the MSRs acquired during 2013 and included in our December 31, 2013, financial results was $120 million. In addition to the MSRs acquired, Key, as a master servicer, acquired $216 million of principal and interest advances. These principal and interest advances recorded at fair value were primarily associated with the June 24, 2013, acquisition of MSRs. No goodwill was recognized as a result of this acquisition. Additional information regarding our mortgage servicing assets is provided in Note 8 ( Mortgage Servicing Assets ).

### Discontinued operations

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

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

On September 30, 2014, we sold the residual interests in all of our outstanding education lending securitization trusts to a third party for $57 million. In selling the residual interests, we no longer have the obligation to absorb losses or the right to receive benefits related to the securitization trusts. Therefore, we have deconsolidated the securitization trusts and removed trust assets of $1.7 billion and trust liabilities of $1.6 billion from our balance sheet at September 30, 2014. As part of the sale and deconsolidation, we recognized an after-tax loss of $25 million, which is recorded in income (loss) from discontinued operations, net of tax on our income statement. We continue to service the securitized loans in eight of the securitization trusts and receive servicing fees, whereby we are adequately compensated, as well as remain a counterparty to derivative contracts with three of the securitization trusts. We have retained interests in the securitization trusts through our ownership of an insignificant percentage of certificates in two of the securitization trusts and two interest-only strips in one of the securitization trusts. These retained interests were remeasured at fair value on September 30, 2014, and their fair value of $1 million was recorded in discontinued assets on our balance sheet. These assets were valued using a similar approach and inputs that have been used to value the education loan securitization trust loans and securities, which are further discussed later in this Note.

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

Table of Contents

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

| *in millions* | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Net interest income | **$ 21** | $ 26 | **$ 67** | $ 80 |
| Provision (credit) for loan and lease losses | **5** | 6 | **15** | 10 |
| Net interest income (expense) after provision for loan and lease losses | **16** | 20 | **52** | 70 |
| Noninterest income | **(41)** | (94) | **(111)** | (128) |
| Noninterest expense | **7** | 6 | **19** | 20 |
| Income (loss) before income taxes | **(32)** | (80) | **(78)** | (78) |
| Income taxes | **(12)** | (30) | **(29)** | (29) |
| Income (loss) from discontinued operations, net of taxes [(a), (b)] | **$ (20)** | $ (50) | **$ (49)** | $ (49) |

(a) Includes after-tax charges of $9 million for each of the three-month periods ended September 30, 2014, and September 30, 2013, and $26 million and $30 million for the nine-month periods ended September 30, 2014, and September 30, 2013, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

(b) For the three and nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp s Form 8-K filed on November 4, 2014.

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

| *in millions* | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Held-to-maturity securities | **$ 1** | | |
| Trust loans at fair value | | $ 1,960 | $ 2,135 |
| Portfolio loans at fair value | **201** | 147 | 148 |
| Loans, net of unearned income of ($2), ($6), and ($6) | **2,174** | 2,390 | 2,455 |
| Less: Allowance for loan and lease losses | **31** | 39 | 38 |
| Net loans | **2,344** | 4,458 | 4,700 |
| Trust accrued income and other assets at fair value | | 20 | 23 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Accrued income and other assets | | **40** | | 45 | | 64 |
| Total assets | **$** | **2,385** | $ | 4,523 | $ | 4,787 |
| Trust accrued expense and other liabilities at fair value | | | $ | 20 | $ | 21 |
| Trust securities at fair value | | | | 1,834 | | 2,016 |
| Total liabilities | | | $ | 1,854 | $ | 2,037 |

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

At September 30, 2014, education loans include 1,434 TDRs with a recorded investment of approximately $16 million (pre-modification and post-modification). A specifically allocated allowance of $1 million was assigned to these loans as of September 30, 2014. There have been no significant payment defaults. There are no significant commitments outstanding to lend additional funds to these borrowers. Additional information regarding TDR classification and ALLL methodology is provided in Note 4 ( Asset Quality ).

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

The trust assets can be used only to settle the obligations or securities the trusts issue; we cannot sell the assets or transfer the liabilities. The loans in the consolidated trusts consist of both private and government-guaranteed loans. The security holders or beneficial interest holders do not have recourse to Key. We no longer have economic interest or risk of loss associated with these education loan securitization trusts as of September 30, 2014. During the second quarter of 2014 and the third quarter of 2013, additional market information became available. Based on this information and our related internal analysis, we adjusted certain assumptions related to valuing the loans in the securitization trusts. As a result, we recognized a net after-tax loss of $22 million during the second quarter of 2014 and a net after-tax loss of $48 million during the third quarter of 2013 related to the fair value of the loans and securities in the securitization trusts. These losses resulted in a reduction in the value of our economic interest in these trusts. We record all income and expense (including fair value adjustments) through the income (loss) from discontinued operations, net of tax line item in our income statement.

On October 27, 2013, we purchased the government-guaranteed education loans from one of the education loan securitization trusts pursuant to the legal terms of the particular trust. The trust used the cash proceeds from the sale of these loans to retire the outstanding securities related to the government-guaranteed education loans. This particular trust remains in existence and continues to maintain the private education loan portfolio and has securities related to these loans outstanding. On December 20, 2013, we sold substantially all of the loans we purchased for $147 million and recognized a gain on the sale of $3 million.

On June 27, 2014, we purchased the private loans from one of the education loan securitization trusts through the execution of a clean-up call option. The trust used the cash proceeds from the sale of these loans to retire the outstanding securities related to these private loans, and there are no future commitments or obligations to the holders of the securities. The trust no longer has any loans or securities and will remain in existence for one more year. The portfolio loans were valued using internal discounted cash flow method, which was affected by assumptions for defaults, expected credit losses, discount rates, and prepayments. The portfolio loans are considered to be Level 3 assets since we rely on unobservable inputs when determining fair value.

At September 30, 2014, there were $199 million of loans that were previously purchased from three of the outstanding securitizations trusts pursuant to the legal terms of these particular trusts. These loans are held as portfolio loans and continue to be accounted for at fair value. These portfolio loans were valued using an internal discounted cash flow model, which was affected by assumptions for defaults, loss severity, discount rates, and prepayments. These portfolio loans are considered to be Level 3 assets since we rely on unobservable inputs when determining fair value. Our valuation process for these loans as well as the trust loans and securities is discussed in more detail below. Portfolio loans accounted for at fair value had a value of $201 million at September 30, 2014, $147 million at December 31, 2013, and $148 million at September 30, 2013.

When we first consolidated the education loan securitization trusts, we made an election to record them at fair value. Carrying the assets and liabilities of the trusts at fair value better depicts our economic interest. The fair value of the assets and liabilities of the trusts was determined by calculating the present value of the future expected cash flows. We relied on unobservable inputs (Level 3) when determining the fair value of the assets and liabilities of the trusts because observable market data was not available. Our valuation process is described in more detail below.

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

The Working Group reviews all significant inputs and assumptions and approves the resulting fair values.

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

Table of Contents

The valuation process for the education loan securitization trust and portfolio loans that are accounted for at fair value has been based on a discounted cash flow analysis using a model purchased from a third party that is maintained by Corporate Treasury. The valuation process begins with loan-by-loan level data that is aggregated into pools based on underlying loan structural characteristics (i.e., current unpaid principal balance, contractual term, interest rate). Cash flows for these loan pools are developed using a financial model that reflects certain assumptions for defaults, recoveries, status changes, and prepayments. A net earnings stream, taking into account cost of funding, is calculated and discounted back to the measurement date using an appropriate discount rate. This resulting amount is used to determine the present value of the loans, which represents their fair value to a market participant.

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

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

A quarterly variance analysis reconciles valuation changes in the model used to calculate the fair value of the trust loans and securities and the portfolio loans at fair value. This quarterly analysis considers loan and securities run-off, yields, future default and recovery changes, and the timing of cash releases to us from the trusts. We also perform back-testing to compare expected defaults to actual experience; the impact of future defaults can significantly affect the fair value of these loans and securities over time. In addition, our internal model validation group periodically performs a review to ensure the accuracy and validity of the model for determining the fair value of these loans and securities.

The following table shows the significant unobservable inputs used to measure the fair value of the education loan securitization trust loans and securities and the portfolio loans accounted for at fair value as of September 30, 2014, December 31, 2013, and September 30, 2013:

| **September 30, 2014** *dollars in millions* | **Fair Value of Level 3 Assets and Liabilities** | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|---|
| Portfolio loans accounted for at fair value | $ 201 | Discounted cash flow | Prepayment speed | 5.00 - 5.80% (5.25%) |
| | | | Loss severity | 2.00 - 77.00% (25.71%) |
| | | | Discount rate | 3.60 - 3.90% (3.69%) |
| | | | Default rate | .93 - 1.91% (1.24%) |

| **December 31, 2013** *dollars in millions* | **Fair Value of Level 3 Assets and** | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|---|

| | Liabilities | | | |
|---|---|---|---|---|
| Trust loans and portfolio loans accounted for at fair value | $ 2,107 | Discounted cash flow | Prepayment speed | 4.00 - 13.50% (6.47%) |
| | | | Loss severity | 2.00 - 79.50% (54.21%) |
| | | | Discount rate | 2.40 -10.50% (3.50%) |
| | | | Default rate | 8.01 - 23.71% (18.43%) |
| Trust securities | 1,834 | Discounted cash flow | Discount rate | 1.60 - 3.50% (2.55%) |

| **September 30, 2013** *dollars in millions* | **Fair Value of Level 3 Assets and Liabilities** | **Valuation Technique** | **Significant Unobservable Input** | **Range (Weighted-Average)** |
|---|---|---|---|---|
| Trust loans and portfolio loans accounted for at fair value | $ 2,283 | Discounted cash flow | Prepayment speed | 4.00 - 13.50% (6.04%) |
| | | | Loss severity | 2.00 - 79.50% (37.67%) |
| | | | Discount rate | 2.00 - 10.50% (7.09%) |
| | | | Default rate | 8.02 - 23.78% (15.97%) |
| Trust securities | 2,016 | Discounted cash flow | Discount rate | 1.10 - 3.80% (2.64%) |

**Table of Contents**

The following table shows the principal and fair value amounts for our trust loans at fair value, portfolio loans at fair value, and portfolio loans at carrying value at September 30, 2014, December 31, 2013, and September 30, 2013. Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans, and resuming accrual of interest are disclosed in Note 1 ( Summary of Significant Accounting Policies ) under the heading Nonperforming Loans beginning on page 117 of our 2013 Form 10-K.

| | **September 30, 2014** | | **December 31, 2013** | | **September 30, 2013** | |
|---|---|---|---|---|---|---|
| *dollars in millions* | **Principal** | **Fair Value** | **Principal** | **Fair Value** | **Principal** | **Fair Value** |
| Trust loans at fair value | | | | | | |
| Accruing loans past due 90 days or more | | | $ 25 | $ 25 | $ 29 | $ 28 |
| Loans placed on nonaccrual status | | | 12 | 12 | 12 | 12 |
| Portfolio loans at fair value | | | | | | |
| Accruing loans past due 90 days or more | **$ 5** | **$ 5** | $ 8 | $ 8 | $ 5 | $ 5 |
| Loans placed on nonaccrual status | | | | | | |
| Portfolio loans at carrying value | | | | | | |
| Accruing loans past due 90 days or more | **$ 31** | **N/A** | $ 35 | N/A | $ 38 | N/A |
| Loans placed on nonaccrual status | **9** | **N/A** | 10 | N/A | 9 | N/A |

The following table shows the consolidated trusts assets and liabilities at fair value and the portfolio loans at fair value and their related contractual values as of September 30, 2014, December 31, 2013, and September 30, 2013.

| | **September 30, 2014** | | **December 31, 2013** | | **September 30, 2013** | |
|---|---|---|---|---|---|---|
| *dollars in millions* | **Contractual Amount** | **Fair Value** | **Contractual Amount** | **Fair Value** | **Contractual Amount** | **Fair Value** |
| **ASSETS** | | | | | | |
| Portfolio loans | $ 199 | $ 201 | $ 140 | $ 147 | $ 142 | $ 148 |
| Trust loans | | | 1,964 | 1,960 | 2,190 | 2,135 |
| Trust other assets | | | 20 | 20 | 23 | 23 |
| **LIABILITIES** | | | | | | |
| Trust securities | | | $ 1,958 | $ 1,834 | $ 2,200 | $ 2,016 |
| Trust other liabilities | | | 20 | 20 | 21 | 21 |

Table of Contents

The following tables present the assets and liabilities of the consolidated education loan securitization trusts measured at fair value as well as the portfolio loans that are measured at fair value on a recurring basis at September 30, 2014, December 31, 2013, and September 30, 2013.

**September 30, 2014**

| *in millions* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **ASSETS MEASURED ON A RECURRING BASIS** | | | | |
| Portfolio loans | | | $ 201 | $ 201 |
| Total assets on a recurring basis at fair value | | | $ 201 | $ 201 |

**December 31, 2013**

| *in millions* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **ASSETS MEASURED ON A RECURRING BASIS** | | | | |
| Portfolio loans | | | $ 147 | $ 147 |
| Trust loans | | | 1,960 | 1,960 |
| Trust other assets | | | 20 | 20 |
| Total assets on a recurring basis at fair value | | | $ 2,127 | $ 2,127 |
| **LIABILITIES MEASURED ON A RECURRING BASIS** | | | | |
| Trust securities | | | $ 1,834 | $ 1,834 |
| Trust other liabilities | | | 20 | 20 |
| Total liabilities on a recurring basis at fair value | | | $ 1,854 | $ 1,854 |

**September 30, 2013**

| *in millions* | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **ASSETS MEASURED ON A RECURRING BASIS** | | | | |
| Portfolio loans | | | $ 148 | $ 148 |
| Trust loans | | | 2,135 | 2,135 |
| Trust other assets | | | 23 | 23 |
| Total assets on a recurring basis at fair value | | | $ 2,306 | $ 2,306 |
| **LIABILITIES MEASURED ON A RECURRING BASIS** | | | | |
| Trust securities | | | $ 2,016 | $ 2,016 |
| Trust other liabilities | | | 21 | 21 |
| Total liabilities on a recurring basis at fair value | | | $ 2,037 | $ 2,037 |

66

The following table shows the change in the fair values of the Level 3 consolidated education loan securitization trusts and portfolio loans for the three- and nine-month periods ended September 30, 2014, and September 30, 2013.

| *in millions* | Portfolio Student Loans | Trust Student Loans | Trust Other Assets | Trust Securities | Trust Other Liabilities |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | $ 147 | $ 1,960 | $ 20 | $ 1,834 | $ 20 |
| Gains (losses) recognized in earnings [(a)] | **(4)** | **(34)** | | **33** | |
| Purchases | **74** | | | | |
| Sales | | **(74)** | | | |
| Settlements | **(16)** | **(202)** | **(1)** | **(278)** | **(3)** |
| Transfers out due to deconsolidation | | **(1,650)** | **(19)** | **(1,589)** | **(17)** |
| Balance at September 30, 2014 [(b)] | **$ 201** | | | | |
| Balance at June 30, 2014 | **$ 209** | **$ 1,711** | **$ 19** | **$ 1,660** | **$ 17** |
| Gains (losses) recognized in earnings [(a)] | | | | | |
| Purchases | | | | | |
| Sales | | | | | |
| Settlements | **(8)** | **(61)** | | **(71)** | |
| Transfers out due to deconsolidation | | **(1,650)** | **(19)** | **(1,589)** | **(17)** |
| Balance at September 30, 2014 [(b)] | **$ 201** | | | | |
| Balance at December 31, 2012 | $ 157 | $ 2,369 | $ 26 | $ 2,159 | $ 22 |
| Gains (losses) recognized in earnings [(a)] | | 6 | | 130 | |
| Purchases | | | | | |
| Sales | | | | | |
| Settlements | (9) | (240) | (3) | (273) | (1) |
| Balance at September 30, 2013 [(b)] | $ 148 | $ 2,135 | $ 23 | $ 2,016 | $ 21 |
| Balance at June 30, 2013 | $ 151 | $ 2,317 | $ 24 | $ 2,118 | $ 21 |
| Gains (losses) recognized in earnings [(a)] | | (105) | | (14) | |
| Purchases | | | | | |
| Sales | | | | | |
| Settlements | (3) | (77) | (1) | (88) | |
| Balance at September 30, 2013 [(b)] | $ 148 | $ 2,135 | $ 23 | $ 2,016 | $ 21 |

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

(b) There were no issuances or transfers into Level 3 for the three- and nine-month periods ended September 30, 2014. There were no issuances, transfers into Level 3, or transfers out of Level 3 for the three- and nine-month periods ended September 30, 2013.

***Victory Capital Management and Victory Capital Advisors.*** On July 31, 2013, we completed the sale of Victory to a private equity fund. As a result of this sale, we recorded an after-tax gain of $92 million as of September 30, 2013. The cash portion of the gain was $72 million as of September 30, 2013. During March 2014, client consents were secured and assets under management were finalized and, as a result, we recorded an additional after-tax cash gain of $6 million as of March 31, 2014. Since February 21, 2013, when we agreed to sell Victory, we have accounted for this business as a discontinued operation.

Table of Contents

The results of this discontinued business are included in income (loss) from discontinued operations, net of taxes on the income statement. The components of income (loss) from discontinued operations, net of taxes for Victory, which includes the additional gain recorded as of March 31, 2014, on the sale of this business, are as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *in millions* | **2014** | **2013** | **2014** | **2013** |
| Net interest income | **$ 5** | | **$ 7** | |
| Noninterest income | | $ 155 | **10** | $ 212 |
| Noninterest expense | | 16 | | 59 |
| Income (loss) before income taxes | **5** | 139 | **17** | 153 |
| Income taxes | **2** | 52 | **7** | 57 |
| Income (loss) from discontinued operations, net of taxes | **$ 3** | $ 87 | **$ 10** | $ 96 |

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

| *in millions* | **September 30, 2014** | **December 31, 2013** | **September 30, 2013** |
|---|---|---|---|
| Seller note | **$ 17** | $ 29 | $ 31 |
| Total assets | **$ 17** | $ 29 | $ 31 |
| Accrued expense and other liabilities | | | |
| Total liabilities | | | |

The only remaining asset of Victory is a $17 million Seller note. The Seller note was accounted for at fair value and classified as a Level 3 asset through December 31, 2013. Since the contingency involving certain fund outflows was resolved, the Seller note was no longer accounted for at fair value subsequent to December 31, 2013.

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *in millions* | **2014** | **2013** | **2014** | **2013** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Noninterest expense | $ | 1 | **$** | **4** | $ | 1 |
| Income (loss) before income taxes | | (1) | | **(4)** | | (1) |
| Income taxes | | (1) | | **(2)** | | 1 |
| Income (loss) from discontinued operations, net of taxes | | | **$** | **(2)** | $ | (2) |

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

| *in millions* | **September 30, 2014** | | **December 31, 2013** | | **September 30, 2013** | |
|---|---|---|---|---|---|---|
| Cash and due from banks | **$** | **19** | $ | 20 | $ | 20 |
| Total assets | **$** | **19** | $ | 20 | $ | 20 |
| Accrued expense and other liabilities | **$** | **3** | | | | |
| Total liabilities | **$** | **3** | | | | |

68

Table of Contents

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

| *in millions* | Three months ended September 30, 2014 | 2013 | Nine months ended September 30, 2014 | 2013 |
|---|---|---|---|---|
| Net interest income | **$ 26** | $ 26 | **$ 74** | $ 80 |
| Provision (credit) for loan and lease losses | **5** | 6 | **15** | 10 |
| Net interest income (expense) after provision for loan and lease losses | **21** | 20 | **59** | 70 |
| Noninterest income | **(41)** | 61 | **(101)** | 84 |
| Noninterest expense | **7** | 23 | **23** | 80 |
| Income (loss) before income taxes | **(27)** | 58 | **(65)** | 74 |
| Income taxes | **(10)** | 21 | **(24)** | 29 |
| Income (loss) from discontinued operations, net of taxes [(a), (b)] | **$ (17)** | $ 37 | **$ (41)** | $ 45 |

(a) Includes after-tax charges of $9 million for each of the three-month periods ended September 30, 2014, and September 30, 2013, and $26 million and $30 million for the nine-month periods ended September 30, 2014, and September 30, 2013, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

(b) For the three and nine months ended September 30, 2014, income (loss) from discontinued operations, net of taxes; consolidated net income (loss); earnings per common share from discontinued operations, net of taxes; and consolidated earnings per common share have been revised from our financial results reported on Form 8-K on October 15, 2014. For further information regarding these changes, see KeyCorp s Form 8-K filed on November 4, 2014.

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

| *in millions* | September 30, 2014 | December 31, 2013 | September 30, 2013 |
|---|---|---|---|
| Cash and due from banks | **$ 19** | $ 20 | $ 20 |
| Held-to-maturity securities | **1** | | |
| Seller note | **17** | 29 | 31 |
| Trust loans at fair value | | 1,960 | 2,135 |
| Portfolio loans at fair value | **201** | 147 | 148 |
| Loans, net of unearned income of ($2), ($6), and ($6) | **2,174** | 2,390 | 2,455 |
| Less: Allowance for loan and lease losses | **31** | 39 | 38 |

| | | | |
|---|---|---|---|
| Net loans | **2,344** | 4,458 | 4,700 |
| Trust accrued income and other assets at fair value | | 20 | 23 |
| Accrued income and other assets | **40** | 45 | 64 |
| Total assets | **$ 2,421** | $ 4,572 | $ 4,838 |
| Trust accrued expense and other liabilities at fair value | | $ 20 | $ 21 |
| Accrued expense and other liabilities | **$ 3** | | |
| Trust securities at fair value | | 1,834 | 2,016 |
| Total liabilities | **$ 3** | $ 1,854 | $ 2,037 |

Table of Contents

## 12. Securities Financing Activities

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

During the third quarter of 2014, our broker-dealer subsidiary, KeyBanc Capital Markets, Inc. ( KBCM ), moved from a self-clearing organization to using a third-party organization for clearing purposes. In connection with this change, KBCM became an introducing broker-dealer, whereby it no longer needs to fund its business operations by entering into repurchase, reverse repurchase, or securities borrowed agreements. KBCM had no securities financing agreements outstanding at September 30, 2014.

Table of Contents

The following table summarizes our securities financing agreements at September 30, 2014, December 31, 2013, and September 30, 2013:

| | September 30, 2014 | | | |
|---|---|---|---|---|
| *in millions* | **Gross Amount Presented in Balance Sheet** | **Netting Adjustments [a]** | **Collateral [b]** | **Net Amounts** |
| **Offsetting of financial assets:** | | | | |
| Reverse repurchase agreements | **$ 6** | **$ (4)** | **$ (2)** | |
| Securities borrowed | | | | |
| Total | **$ 6** | **$ (4)** | **$ (2)** | |
| **Offsetting of financial liabilities:** | | | | |
| Repurchase agreements | **$ 4** | **$ (4)** | | |
| Total | **$ 4** | **$ (4)** | | |

| | December 31, 2013 | | | |
|---|---|---|---|---|
| *in millions* | **Gross Amount Presented in Balance Sheet** | **Netting Adjustments [a]** | **Collateral [b]** | **Net Amounts** |
| **Offsetting of financial assets:** | | | | |
| Reverse repurchase agreements | $ 347 | $ (278) | $ (66) | $ 3 |
| Securities borrowed | 12 | | (12) | |
| Total | $ 359 | $ (278) | $ (78) | $ 3 |
| **Offsetting of financial liabilities:** | | | | |
| Repurchase agreements | $ 517 | $ (278) | $ (239) | |
| Total | $ 517 | $ (278) | $ (239) | |

| | September 30, 2013 | | | |
|---|---|---|---|---|
| *in millions* | **Gross Amount Presented in Balance** | **Netting Adjustments [a]** | **Collateral [b]** | **Net Amounts** |

| | Sheet | | | | | | |
|---|---|---|---|---|---|---|---|
| **Offsetting of financial assets:** | | | | | | | |
| Reverse repurchase agreements | $ 516 | $ | (176) | $ | (332) | $ | 8 |
| Securities borrowed | 1 | | | | (1) | | |
| Total | $ 517 | $ | (176) | $ | (333) | $ | 8 |
| **Offsetting of financial liabilities:** | | | | | | | |
| Repurchase agreements | $ 464 | $ | (176) | $ | (288) | | |
| Total | $ 464 | $ | (176) | $ | (288) | | |

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

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

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

Table of Contents

## 13. Employee Benefits

### Pension Plans

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

During the third quarters of 2014 and 2013, lump sum payments made under certain pension plans triggered settlement accounting. In accordance with the applicable accounting guidance for defined benefit plans, we performed a remeasurement of the affected plans in conjunction with the settlement and recognized the settlement losses reflected in the following table. We will also recognize a settlement loss in the fourth quarter of 2014 related to additional lump sum payments made during the fourth quarter.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *in millions* | **2014** | **2013** | **2014** | **2013** |
| Interest cost on PBO | **$ 12** | $ 10 | **$ 36** | $ 30 |
| Expected return on plan assets | **(17)** | (17) | **(51)** | (51) |
| Amortization of losses | **4** | 5 | **12** | 15 |
| Settlement loss | **20** | 25 | **20** | 25 |
| Net pension cost (benefit) | **$ 19** | $ 23 | **$ 17** | $ 19 |

### Other Postretirement Benefit Plans

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| *in millions* | **2014** | **2013** | **2014** | **2013** |
| Interest cost on APBO | **$ 1** | $ 1 | **$ 3** | $ 3 |
| Expected return on plan assets | **(1)** | (1) | **(3)** | (3) |
| Net postretirement benefit cost | | | | |

Table of Contents

## 14. Trust Preferred Securities Issued by Unconsolidated Subsidiaries

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

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

- required distributions on the trust preferred securities;
- the redemption price when a capital security is redeemed; and
- the amounts due if a trust is liquidated or terminated.

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

As of September 30, 2014, the trust preferred securities issued by the KeyCorp capital trusts represent $340 million, or 3.4%, of our total qualifying Tier 1 capital, net of goodwill.

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

| *dollars in millions* | **Trust Preferred Securities, Net of Discount** [a] | **Common Stock** | **Principal Amount of Debentures, Net of Discount** [b] | **Interest Rate of Trust Preferred Securities and Debentures** [c] | **Maturity of Trust Preferred Securities and Debentures** |
|---|---|---|---|---|---|
| September 30, 2014 | | | | | |
| KeyCorp Capital I | **$ 156** | **$ 6** | **$ 162** | **.975 %** | **2028** |
| KeyCorp Capital II | **105** | **4** | **109** | **6.875** | **2029** |
| KeyCorp Capital III | **136** | **4** | **140** | **7.750** | **2029** |
| Total | **$ 397** | **$ 14** | **$ 411** | **4.856 %** | |
| December 31, 2013 | $ 384 | $ 14 | $ 398 | 4.777 % | |
| September 30, 2013 | $ 391 | $ 14 | $ 405 | 4.834 % | |

(a) The trust preferred securities must be redeemed when the related debentures mature, or earlier if provided in the governing indenture. Each issue of trust preferred securities carries an interest rate identical to that of the related debenture. Certain trust preferred securities include basis adjustments related to fair value hedges totaling $57 million at September 30, 2014,
$44 million at December 31, 2013, and $51 million at September 30, 2013. See Note 7 ( Derivatives and Hedging Activities ) for an explanation of fair value hedges.

(b) We have the right to redeem these debentures. If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (i) the principal amount, plus any accrued but unpaid interest, or (ii) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points for KeyCorp Capital II o