KEYCORP /NEW/
Form 10-Q
August 02, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

Form 10-Q

[Ö] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2012

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From ____ To ____

Commission File Number 1-11302

KeyCorp

(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 No.)
127 Public Square, Cleveland, Ohio	**44114-1306**
(Address of principal executive offices)	(Zip Code)

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

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

Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Shares with a par value of $1 each	943,463,119 Shares
(Title of class)	(Outstanding at July 31, 2012)

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KEYCORP

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PART II. OTHER INFORMATION

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

in millions, except per share data	June 30, 2012 (Unaudited)	December 31, 2011	June 30, 2011 (Unaudited)
ASSETS			
Cash and due from banks	**$ 717**	$ 694	$ 853
Short-term investments	**2,216**	3,519	4,563
Trading account assets	**679**	623	769
Securities available for sale	**13,205**	16,012	18,680
Held-to-maturity securities (fair value: $4,396, $2,133 and $19)	**4,352**	2,109	19
Other investments	**1,186**	1,163	1,195
Loans, net of unearned income of $1,155, $1,388 and $1,460	**49,605**	49,575	47,840
Less: Allowance for loan and lease losses	**888**	1,004	1,230
Net loans	**48,717**	48,571	46,610
Loans held for sale	**656**	728	381
Premises and equipment	**931**	944	919
Operating lease assets	**318**	350	453
Goodwill	**917**	917	917
Other intangible assets	**15**	17	19
Corporate-owned life insurance	**3,285**	3,256	3,208
Derivative assets	**818**	945	900
Accrued income and other assets (including $91 of consolidated LIHTC guaranteed funds VIEs, see Note 9)[(a)]	**2,978**	3,077	2,968
Discontinued assets (including $2,611 of consolidated education loan securitization trust VIEs (see Note 9) and $73 of loans in portfolio at fair value)[(a)]	**5,533**	5,860	6,328
Total assets	**$ 86,523**	$ 88,785	$ 88,782
LIABILITIES			
Deposits in domestic offices:			
NOW and money market deposit accounts	**$ 28,957**	$ 27,954	$ 26,277
Savings deposits	**2,103**	1,962	1,973
Certificates of deposit ($100,000 or more)	**3,669**	4,111	4,939
Other time deposits	**5,385**	6,243	7,167
Total interest-bearing	**40,114**	40,270	40,356
Noninterest-bearing	**21,435**	21,098	19,318
Deposits in foreign office interest-bearing	**618**	588	736
Total deposits	**62,167**	61,956	60,410
Federal funds purchased and securities sold under repurchase agreements	**1,716**	1,711	1,668
Bank notes and other short-term borrowings	**362**	337	511
Derivative liabilities	**763**	1,026	991
Accrued expense and other liabilities	**1,417**	1,763	1,518
Long-term debt	**7,521**	9,520	10,997
Discontinued liabilities (including $2,401 of consolidated education loan securitization trust VIEs at fair value, see Note 9)[(a)]	**2,401**	2,550	2,950
Total liabilities	**76,347**	78,863	79,045

EQUITY			
Preferred stock, $1 par value, authorized 25,000,000 shares:			
7.75% Noncumulative Perpetual Convertible Preferred Stock, Series A, $100 liquidation preference; authorized 7,475,000 shares; issued 2,904,839, 2,904,839 and 2,904,839 shares	**291**	291	291
Common shares, $1 par value; authorized 1,400,000,000 shares; issued 1,016,969,905, 1,016,969,905 and 1,016,969,905 shares	**1,017**	1,017	1,017
Capital surplus	**4,120**	4,194	4,191
Retained earnings	**6,595**	6,246	5,926
Treasury stock, at cost (71,496,550, 63,962,113 and 63,147,538)	**(1,796)**	(1,815)	(1,815)
Accumulated other comprehensive income (loss)	**(72)**	(28)	109
Key shareholders equity	**10,155**	9,905	9,719
Noncontrolling interests	**21**	17	18
Total equity	**10,176**	9,922	9,737
Total liabilities and equity	**$ 86,523**	$ 88,785	$ 88,782

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

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Income (Unaudited)

dollars in millions, except per share amounts	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
INTEREST INCOME				
Loans	**$ 518**	$ 551	**$ 1,054**	$ 1,121
Loans held for sale	**5**	3	**10**	7
Securities available for sale	**105**	149	**221**	315
Held-to-maturity securities	**17**	1	**29**	1
Trading account assets	**5**	9	**11**	16
Short-term investments	**2**	1	**3**	2
Other investments	**10**	12	**18**	24
Total interest income	**662**	726	**1,346**	1,486
INTEREST EXPENSE				
Deposits	**71**	100	**148**	210
Federal funds purchased and securities sold under repurchase agreements	**1**	2	**2**	3
Bank notes and other short-term borrowings	**2**	3	**4**	6
Long-term debt	**50**	57	**101**	106
Total interest expense	**124**	162	**255**	325
NET INTEREST INCOME	**538**	564	**1,091**	1,161
Provision (credit) for loan and lease losses	**21**	(8)	**63**	(48)
Net interest income (expense) after provision for loan and lease losses	**517**	572	**1,028**	1,209
NONINTEREST INCOME				
Trust and investment services income	**102**	113	**211**	223
Service charges on deposit accounts	**70**	69	**138**	137
Operating lease income	**20**	32	**42**	67
Letter of credit and loan fees	**56**	47	**110**	102
Corporate-owned life insurance income	**30**	28	**60**	55
Net securities gains (losses)[(a)]		2		1
Electronic banking fees	**19**	33	**36**	63
Gains on leased equipment	**36**	5	**63**	9
Insurance income	**11**	14	**23**	29
Net gains (losses) from loan sales	**32**	11	**54**	30
Net gains (losses) from principal investing	**24**	17	**59**	52
Investment banking and capital markets income (loss)	**37**	42	**80**	85
Other income	**48**	41	**81**	58
Total noninterest income	**485**	454	**957**	911
NONINTEREST EXPENSE				
Personnel	**389**	380	**774**	751
Net occupancy	**62**	62	**126**	127
Operating lease expense	**15**	25	**32**	53
Computer processing	**43**	42	**84**	84
Business services and professional fees	**51**	44	**89**	82
FDIC assessment	**8**	9	**16**	38
OREO expense, net	**7**	(3)	**13**	7
Equipment	**27**	26	**53**	52
Marketing	**17**	10	**30**	20
Provision (credit) for losses on lending-related commitments	**6**	(12)	**6**	(16)
Other expense	**89**	97	**194**	183
Total noninterest expense	**714**	680	**1,417**	1,381

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		**288**		346		**568**		739
Income taxes		**57**		94		**132**		205
INCOME (LOSS) FROM CONTINUING OPERATIONS		**231**		252		**436**		534
Income (loss) from discontinued operations, net of taxes of $6, ($6), $3 and ($12) (see Note 11)		**10**		(9)		**5**		(20)
NET INCOME (LOSS)		**241**		243		**441**		514
Less: Net income (loss) attributable to noncontrolling interests		**5**		3		**5**		11
NET INCOME (LOSS) ATTRIBUTABLE TO KEY	**$**	**236**	$	240	**$**	**436**	$	503
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**221**	$	243	**$**	**420**	$	427
Net income (loss) attributable to Key common shareholders		**231**		234		**425**		407
Per common share:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.23**	$	.26	**$**	**.44**	$	.47
Income (loss) from discontinued operations, net of taxes		**.01**		(.01)		**.01**		(.02)
Net income (loss) attributable to Key common shareholders		**.24**		.25		**.45**		.44
Per common share assuming dilution:								
Income (loss) from continuing operations attributable to Key common shareholders	**$**	**.23**	$	.26	**$**	**.44**	$	.46
Income (loss) from discontinued operations, net of taxes		**.01**		(.01)		**.01**		(.02)
Net income (loss) attributable to Key common shareholders [(c)]		**.24**		.25		**.45**		.44
Cash dividends declared per common share	**$**	**.05**	$	.03	**$**	**.08**	$	.04
Weighted-average common shares outstanding (000) [(b)]		**944,648**		947,565		**946,995**		914,911
Weighted-average common shares and potential common shares outstanding (000)		**948,087**		952,133		**951,029**		920,162

(a) For the three months ended June 30, 2012 and 2011, we did not have any impairment losses related to securities.

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

(c) EPS may not foot due to rounding.

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Comprehensive Income (Unaudited)

in millions	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net income (loss)	**$ 241**	$ 243	**$ 441**	$ 514
Other comprehensive income (loss):				
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($25), $73, ($31), and $61	**(42)**	123	**(53)**	103
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of ($2), $9, $5, and $4	**(4)**	15	**8**	7
Foreign currency translation adjustments	**(10)**	4	**(4)**	13
Net pension and postretirement benefit costs, net of income taxes	**3**	2	**5**	3
Other comprehensive income (loss), net of tax:	**188**	387	**397**	640
Net contribution to (distribution from) noncontrolling interests	**4**	(254)	**4**	(239)
Total comprehensive income (loss) attributable to Key	**$ 192**	$ 133	**$ 401**	$ 401

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Changes in Equity (Unaudited)

			Key Shareholders Equity							
dollars in millions, except per share amounts	Preferred Shares Outstanding (000)	Common Shares Outstanding (000)	Preferred Stock	Common Shares	Common Stock Warrant	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests
BALANCE AT DECEMBER 31, 2010	2,930	880,608	$ 2,737	$ 946	$ 87	$ 3,711	$ 5,557	$ (1,904)	$ (17)	$ 257
Net income (loss)							503			11
Net unrealized gains (losses) on securities available for sale, net of income taxes of $61									103	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $4									7	
Net distribution to noncontrolling interests										(250)
Foreign currency translation adjustments									13	
Net pension and postretirement benefit costs, net of income taxes									3	
Deferred compensation						(2)				
Cash dividends declared on common shares ($.04 per share)							(38)			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)							(12)			
Cash dividends accrued on Cumulative Series B Preferred Stock (5% per annum)							(31)			
Series B Preferred Stock - TARP redemption	(25)		(2,451)				(49)			
Repurchase of common stock warrant					(87)	17				
Amortization of discount on Series B Preferred Stock			4				(4)			
Common shares issuance		70,621		71		533				
Common shares reissued for stock options and other employee benefit plans		2,593				(68)		89		
Other			1							
BALANCE AT JUNE 30, 2011	2,905	953,822	$ 291	$ 1,017		$ 4,191	$ 5,926	$ (1,815)	$ 109	$ 18
BALANCE AT DECEMBER 31, 2011	2,905	953,008	$ 291	$ 1,017		$ 4,194	$ 6,246	$ (1,815)	$ (28)	$ 17
Net income (loss)							**436**			**5**
Other comprehensive income (loss):										
Net unrealized gains (losses) on securities available for sale, net of income taxes of ($31)									**(53)**	
Net unrealized gains (losses) on derivative financial instruments, net of income taxes of $5									**8**	
Net distribution from noncontrolling interests										**(1)**
Foreign currency translation adjustments									**(4)**	
Net pension and postretirement benefit costs, net of income taxes									**5**	
Deferred compensation						**8**				
Cash dividends declared on common shares ($.08 per share)							**(76)**			
Cash dividends declared on Noncumulative Series A Preferred Stock ($3.875 per share)							**(11)**			
Common shares repurchased		**(10,468)**						**(82)**		
Common shares reissued (returned) for stock options and other employee benefit plans		**2,933**				**(82)**		**101**		

BALANCE AT JUNE 30, 2012	**2,905**	**945,473**	**$ 291**	**$ 1,017**		**$ 4,120**	**$ 6,595**	**$ (1,796)**	**$ (72)**	**$ 21**

See Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Cash Flows (Unaudited)

in millions	Six months ended June 30, 2012	2011
OPERATING ACTIVITIES		
Net income (loss)	$ **441**	$ 514
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision (credit) for loan and lease losses	**63**	(48)
Depreciation and amortization expense	**119**	143
FDIC (payments) net of FDIC expense	**13**	35
Deferred income taxes (benefit)	**38**	157
Net losses (gains) and writedown on OREO	**12**	5
Provision (credit) for customer derivative losses	**1**	(12)
Net losses (gains) from loan sales	**(54)**	(30)
Net losses (gains) from principal investing	**(59)**	(52)
Provision (credit) for losses on lending-related commitments	**6**	(16)
(Gains) losses on leased equipment	**(63)**	(9)
Net securities losses (gains)		(1)
Net decrease (increase) in loans held for sale excluding loan transfers from continuing operations	**(5)**	140
Net decrease (increase) in trading account assets	**(57)**	216
Other operating activities, net	**(220)**	412
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**235**	1,454
INVESTING ACTIVITIES		
Net decrease (increase) in short-term investments	**1,303**	(3,219)
Purchases of securities available for sale	**(10)**	(619)
Proceeds from sales of securities available for sale		1,587
Proceeds from prepayments and maturities of securities available for sale	**2,733**	2,448
Proceeds from prepayments and maturities of held-to-maturity securities	**238**	
Purchases of held-to-maturity securities	**(2,481)**	(2)
Purchases of other investments	**(39)**	(104)
Proceeds from sales of other investments	**3**	43
Proceeds from prepayments and maturities of other investments	**72**	41
Net decrease (increase) in loans, excluding acquisitions, sales and transfers	**(217)**	1,775
Proceeds from loan sales	**135**	94
Purchases of premises and equipment	**(53)**	(74)
Proceeds from sales of premises and equipment	**1**	
Proceeds from sales of other real estate owned	**45**	94
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**1,730**	2,064
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**211**	(200)
Net increase (decrease) in short-term borrowings	**30**	(1,017)
Net proceeds from issuance of long-term debt	**4**	1,020
Payments on long-term debt	**(2,019)**	(684)
Repurchase of Treasury Shares	**(82)**	
Net proceeds from issuance of common shares		604
Net proceeds from reissuance of common shares	**1**	
Series B Preferred Stock - TARP redemption		(2,500)
Repurchase of common stock warrant		(70)
Cash dividends paid	**(87)**	(96)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(1,942)**	(2,943)
NET INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	**23**	575
CASH AND DUE FROM BANKS AT BEGINNING OF PERIOD	**694**	278
CASH AND DUE FROM BANKS AT END OF PERIOD	$ **717**	$ 853

Additional disclosures relative to cash flows:		
Interest paid	**$ 249**	$ 317
Income taxes paid (refunded)	**26**	(319)
Noncash items:		
Loans transferred to portfolio from held for sale	**$ 93**	
Loans transferred to held for sale from portfolio	**16**	$ 54
Loans transferred to other real estate owned	**21**	23

See Notes to Consolidated Financial Statements (Unaudited).

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Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

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

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

References to our 2011 Annual Report on Form 10-K refer to our Annual Report on Form 10-K for the year ended December 31, 2011, 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).

ABO: Accumulated benefit obligation.
AICPA: American Institute of Certified Public Accountants.
ALCO: Asset/Liability Management Committee.
ALLL: Allowance for loan and lease losses.
A/LM: Asset/liability management.
AOCI: Accumulated other comprehensive income (loss).
APBO: Accumulated postretirement benefit obligation.
Austin: Austin Capital Management, Ltd.
BHCs: Bank holding companies.
CCAR: Comprehensive Capital Analysis and Review.
CMO: Collateralized mortgage obligation.
Common Shares: Common Shares, $1 par value.
CPP: Capital Purchase Program of the U.S. Treasury.
DIF: Deposit Insurance Fund.
Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.
ERISA: Employee Retirement Income Security Act of 1974.
ERM: Enterprise risk management.
EVE: Economic value of equity.
FASB: Financial Accounting Standards Board.
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.
FVA: Fair Value of pension plan assets.
GAAP: U.S. generally accepted accounting principles.
GNMA: Government National Mortgage Association.
IRS: Internal Revenue Service.
ISDA: International Swaps and Derivatives Association.
KAHC: Key Affordable Housing Corporation.
LIBOR: London Interbank Offered Rate.
LIHTC: Low-income housing tax credit.
LILO: Lease in, lease out transaction.
Moody s: Moody s Investor Services, Inc.
N/A: Not applicable.
NASDAQ: National Association of Securities Dealers Automated Quotation System.
N/M: Not meaningful.
NOW: Negotiable Order of Withdrawal.
NPR: Notice of proposed rulemaking.
NYSE: New York Stock Exchange.
OCC: Office of the Comptroller of the Currency.
OCI: Other comprehensive income (loss).
OREO: Other real estate owned.
OTTI: Other-than-temporary impairment.
QSPE: Qualifying special purpose entity.
PBO: Projected Benefit Obligation.
S&P: Standard and Poor s Ratings Services, a Division of The McGraw-Hill Companies, Inc.
SCAP: Supervisory Capital Assessment Program administered by the Federal Reserve.
SEC: U.S. Securities & Exchange Commission.
Series A Preferred Stock: KeyCorp s 7.750% Noncumulative Perpetual Convertible Preferred Stock, Series A.
Series B Preferred Stock: KeyCorp s Fixed-Rate Cumulative Perpetual Preferred Stock, Series B issued to the U.S. Treasury under the CPP.
SILO: Sale in, lease out transaction.
SPE: Special purpose entity.
TAG: Transaction Account Guarantee program of the FDIC.
TARP: Troubled Asset Relief Program.
TDR: Troubled debt restructuring.
TE: Taxable equivalent.
TLGP: Temporary Liquidity Guarantee Program of the FDIC.
U.S. Treasury: United States Department of the Treasury.
VAR: Value at risk.
VEBA: Voluntary Employee Beneficiary Association.
VIE: Variable interest entity.
XBRL: eXtensible Business Reporting Language.

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

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

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

We believe that the unaudited consolidated interim financial statements reflect all adjustments of a normal recurring nature and disclosures that are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the interim period are not necessarily indicative of the results of operations to be expected for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our 2011 Annual Report on Form 10-K. See Note 11 (Acquisition and Discontinued Operations) for further information regarding an error correction that was made during the third quarter of 2011.

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.

On August 1, 2012, we announced certain new strategic actions to further strengthen our consumer and commercial payments businesses. We have acquired Key-branded credit card assets from Elan Financial Services and will begin to self-issue credit cards. The acquired credit card portfolio of approximately 400,000 consumer and business accounts is comprised of current and former Key clients and has approximately $725 million in credit card assets. We also announced that we entered into a new third party processing agreement with Elavon, Inc. This new agreement continues the legacy arrangement with Elavon while providing Key the opportunity to more fully integrate merchant processing services into our overall payment solutions for business clients. This new arrangement with Elavon is expected to become effective in the first half of 2013.

Offsetting Derivative Positions

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

Accounting Guidance Adopted in 2012

Fair value measurement. In May 2011, the FASB issued accounting guidance that changed the wording used to describe many of the current accounting requirements for measuring fair value and disclosing information about fair value measurements. This accounting guidance clarified the FASB s intent about the application of existing fair value measurement requirements. It was effective for the interim and annual periods beginning on or after December 15, 2011 (effective January 1, 2012, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations. As required by this accounting guidance, additional information regarding the classification is provided in Note 5 (Fair Value Measurements).

Presentation of comprehensive income. In June 2011, the FASB issued new accounting guidance that required all nonowner changes in shareholders equity to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This new accounting guidance did not change any of the components currently recognized in net income or comprehensive income. It was effective for public entities for interim and annual periods beginning after December 15, 2011 (effective January 1, 2012, for us) as well as interim and annual periods thereafter. As required by this accounting guidance, Consolidated Statements of Comprehensive Income (Unaudited) are now included as part of our financial statements.

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Testing goodwill for impairment. In September 2011, the FASB issued new accounting guidance that simplified how an entity tests goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether additional goodwill impairment testing is required. This accounting guidance was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (effective January 1, 2012, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations.

Repurchase agreements. In April 2011, the FASB issued accounting guidance that changed the accounting for repurchase agreements and other similar arrangements by eliminating the collateral maintenance requirement when assessing effective control in these transactions. This change could result in more of these transactions being accounted for as secured borrowings instead of sales. This accounting guidance was effective for new transactions and transactions modified on or after the first interim or annual period beginning after December 15, 2011 (effective January 1, 2012, for us). The adoption of this accounting guidance did not have a material effect on our financial condition or results of operations since we do not account for these types of arrangements as sales.

Accounting Guidance Pending Adoption at June 30, 2012

Testing indefinite-lived intangible assets for impairment. In July 2012, the FASB issued new accounting guidance that simplifies how an entity tests indefinite-lived intangible assets other than goodwill for impairment. It permits an entity to first assess qualitative factors to determine whether further testing for impairment of indefinite-lived intangible assets other than goodwill is required. This accounting guidance will be effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (January 1, 2013, 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.

Offsetting disclosures. In December 2011, the FASB issued new accounting guidance that requires an entity to disclose information about offsetting and related arrangements to enable financial statement users to understand the effect of those arrangements on the entity s financial position. This new accounting guidance will be effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods (effective January 1, 2013, for us).

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2. Earnings Per Common Share

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

dollars in millions, except per share amounts	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
EARNINGS				
Income (loss) from continuing operations	**$ 231**	$ 252	**$ 436**	$ 534
Less: Net income (loss) attributable to noncontrolling interests	**5**	3	**5**	11
Income (loss) from continuing operations attributable to Key	**226**	249	**431**	523
Less: Dividends on Series A Preferred Stock	**5**	6	**11**	12
Cash dividends on Series B Preferred Stock [b]				31
Amortization of discount on Series B Preferred Stock[b]				53
Income (loss) from continuing operations attributable to Key common shareholders	**221**	243	**420**	427
Income (loss) from discontinued operations, net of taxes[a]	**10**	(9)	**5**	(20)
Net income (loss) attributable to Key common shareholders	**$ 231**	$ 234	**$ 425**	$ 407
WEIGHTED-AVERAGE COMMON SHARES				
Weighted-average common shares outstanding (000)	**944,648**	947,565	**946,995**	914,911
Effect of dilutive convertible preferred stock, common share options and other stock awards (000)	**3,439**	4,568	**4,034**	5,251
Weighted-average common shares and potential common shares outstanding (000)	**948,087**	952,133	**951,029**	920,162
EARNINGS PER COMMON SHARE				
Income (loss) from continuing operations attributable to Key common shareholders	**$ .23**	$ .26	**$ .44**	$ .47
Income (loss) from discontinued operations, net of taxes [a]	**.01**	(.01)	**.01**	(.02)
Net income (loss) attributable to Key common shareholders[c]	**.24**	.25	**.45**	.44
Income (loss) from continuing operations attributable to Key common shareholders assuming dilution	**$ .23**	$ .26	**$ .44**	$ .46
Income (loss) from discontinued operations, net of taxes [a]	**.01**	(.01)	**.01**	(.02)
Net income (loss) attributable to Key common shareholders assuming dilution[c]	**.24**	.25	**.45**	.44

(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. As a result of these decisions, we have accounted for these businesses as discontinued operations. The income from discontinued operations for the quarter ended June 30, 2012, and the six months ended June 30, 2012, was primarily attributable to fair value adjustments related to the education lending securitization trusts.

(b) Includes a $49 million deemed dividend recorded in the first quarter of 2011 related to the repurchase of the $2.5 billion Series B Preferred Stock.

(c) EPS may not foot due to rounding.

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3. Loans and Loans Held for Sale

Our loans by category are summarized as follows:

in millions	June 30, 2012	December 31, 2011	June 30, 2011
Commercial, financial and agricultural	**$ 20,386**	$ 19,378	$ 16,883
Commercial real estate:			
Commercial mortgage	**7,409**	8,037	8,069
Construction	**1,172**	1,312	1,631
Total commercial real estate loans	**8,581**	9,349	9,700
Commercial lease financing	**5,636**	6,055	6,105
Total commercial loans	**34,603**	34,782	32,688
Residential prime loans:			
Real estate residential mortgage	**2,016**	1,946	1,838
Home equity:			
Key Community Bank	**9,601**	9,229	9,431
Other	**479**	535	595
Total home equity loans	**10,080**	9,764	10,026
Total residential prime loans	**12,096**	11,710	11,864
Consumer other Key Community Bank	**1,263**	1,192	1,157
Consumer other:			
Marine	**1,542**	1,766	1,989
Other	**101**	125	142
Total consumer other	**1,643**	1,891	2,131
Total consumer loans	**15,002**	14,793	15,152
Total loans (a)	**$ 49,605**	$ 49,575	$ 47,840

(a) Excluded at June 30, 2012, December 31, 2011, and June 30, 2011, are loans in the amount of $5.5 billion, $5.8 billion and $6.3 billion, respectively, related to the discontinued operations of the education lending business.

Our loans held for sale are summarized as follows:

in millions	June 30, 2012	December 31, 2011	June 30, 2011
Commercial, financial and agricultural	**$ 18**	$ 19	$ 80
Real estate commercial mortgage	**523**	567	198
Real estate construction	**12**	35	39
Commercial lease financing	**13**	12	6
Real estate residential mortgage	**90**	95	58
Total loans held for sale	**$ 656**	$ 728	$ 381

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

in millions		June 30, 2012		December 31, 2011		June 30, 2011
Balance at beginning of the period	**$**	**511**	$	479	$	426
New originations		**1,308**		1,235		914
Transfers from held to maturity, net		**7**		19		16
Loan sales		**(1,165)**		(932)		(1,039)
Loan draws (payments), net		**(4)**		(72)		73
Transfers to OREO / valuation adjustments		**(1)**		(1)		(9)
Balance at end of perod	**$**	**656**	$	728	$	381

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4. Asset Quality

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

Our nonperforming assets and past due loans were as follows:

in millions	June 30, 2012	December 31, 2011	June 30, 2011
Total nonperforming loans [(a)]	**$ 657**	$ 727	$ 842
Nonperforming loans held for sale	**38**	46	42
OREO	**28**	65	52
Other nonperforming assets	**28**	21	14
Total nonperforming assets	**$ 751**	$ 859	$ 950
Restructured loans included in nonperforming loans [(b)]	**$ 163**	$ 191	$ 144
Restructured loans with an allocated specific allowance [(c)]	**71**	50	19
Specifically allocated allowance for restructured loans [(d)]	**34**	10	5
Accruing loans past due 90 days or more	**$ 131**	$ 164	$ 118
Accruing loans past due 30 through 89 days	**362**	441	465

(a) Includes $36 million of performing home equity second liens at June 30, 2012, that are: subordinate to first liens that are 120 days or more past due; in foreclosure; or when the first mortgage delinquency timeframe is unknown. Such second liens are now being reported as nonperforming loans based upon regulatory guidance issued in January, 2012. This policy related to the classification of second lien home equity loans was implemented prospectively, and therefore prior periods were not presented.

(b) A loan is restructured (i.e., TDRs) when the borrower is experiencing financial difficulty and we grant a concession that we would not otherwise have considered to improve the collectability of the loan. Typical concessions include: reducing the interest rate, extending the maturity date, or reducing the principal balance.

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

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

At June 30, 2012, the approximate carrying amount of our commercial nonperforming loans outstanding represented 59% of their original contractual amount, total nonperforming loans outstanding represented 70% of their original contractual amount owed, and nonperforming assets in total were carried at 64% of their original contractual amount.

At June 30, 2012, our twenty largest nonperforming loans totaled $220 million, representing 33% of total loans on nonperforming status from continuing operations. At June 30, 2011, the twenty largest nonperforming loans totaled $276 million, representing 33% of total loans on nonperforming status.

The amount by which nonperforming loans and loans held for sale reduced expected interest income was $12 million for the six months ended June 30, 2012, and $31 million for the year ended December 31, 2011.

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The following tables set forth a further breakdown of individually impaired loans as of June 30, 2012, December 31, 2011 and June 30, 2011:

June 30, 2012 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 59	$ 142		$ 68
Commercial real estate:				
Commercial mortgage	112	199		113
Construction	51	204		49
Total commercial real estate loans	163	403		162
Total commercial loans with no related allowance recorded	222	545		230
Real estate residential mortgage	1	1		1
Total consumer loans	1	1		1
Total loans with no related allowance recorded	223	546		231
With an allowance recorded:				
Commercial, financial and agricultural	43	53	$ 12	46
Commercial real estate:				
Commercial mortgage	56	98	15	63
Construction	4	4	3	4
Total commercial real estate loans	60	102	18	67
Total commercial loans with an allowance recorded	103	155	30	113
Real estate residential mortgage	16	17	2	8
Home equity:				
Key Community Bank	11	11	3	6
Other	6	6	1	3
Total home equity loans	17	17	4	9
Consumer other Key Community Bank	2	2	1	1
Consumer other:				
Marine	50	50	11	25
Other				
Total consumer other	50	50	11	25
Total consumer loans	85	86	18	43
Total loans with an allowance recorded	188	241	48	156
Total	$ 411	$ 787	$ 48	$ 387

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

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

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December 31, 2011 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 88	$ 195		$ 75
Commercial real estate:				
Commercial mortgage	100	240		131
Construction	30	113		98
Total commercial real estate loans	130	353		229
Total loans with no related allowance recorded	218	548		304
With an allowance recorded:				
Commercial, financial and agricultural	62	70	$ 26	75
Commercial real estate:				
Commercial mortgage	96	115	21	91
Construction	12	18	4	29
Total commercial real estate loans	108	133	25	120
Total loans with an allowance recorded	170	203	51	201
Total	$ 388	$ 751	$ 51	$ 505

(a) The Recorded Investment in impaired loans represents the face amount of the loan increased or decreased by applicable accrued interest, net deferred loan fees and costs, 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.

June 30, 2011 *in millions*	**Recorded Investment** (a)	**Unpaid Principal Balance** (b)	**Specific Allowance**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial, financial and agricultural	$ 116	$ 217		$ 89
Commercial real estate:				
Commercial mortgage	123	207		143
Construction	83	226		124
Total commercial real estate loans	206	433		267
Total loans with no related allowance recorded	322	650		356
With an allowance recorded:				
Commercial, financial and agricultural	43	71	$ 14	66
Commercial real estate:				
Commercial mortgage	89	174	21	88
Construction	34	73	11	39
Total commercial real estate loans	123	247	32	127
Commercial lease financing				6

Total loans with an allowance recorded		166		318		46		199
Total	$	488	$	968	$	46	$	555

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

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

For the six months ended June 30, 2012 and 2011, interest income recognized on the outstanding balances of accruing impaired loans totaled $2 million for each period presented.

At June 30, 2012, aggregate restructured loans (accrual, nonaccrual and held-for-sale loans) totaled $274 million, compared to $276 million at December 31, 2011, and $252 million at June 30, 2011. We added $109 million in restructured loans during the first six months of 2012, which were partially offset by $111 million in payments and charge-offs.

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A further breakdown of restructured loans (TDRs) included in nonperforming loans by loan category as of June 30, 2012, follows:

June 30, 2012 *dollars in millions*	**Number of loans**	**Pre-modification Outstanding Recorded Investment**	**Post-modification Outstanding Recorded Investment**
LOAN TYPE			
Nonperforming:			
Commercial, financial and agricultural	95	$ 108	$ 59
Commercial real estate:			
Real estate commercial mortgage	16	47	31
Real estate construction	11	60	43
Total commercial real estate loans	27	107	74
Total commercial loans	122	215	133
Real estate residential mortgage	56	7	7
Home equity:			
Key Community Bank	50	4	4
Other	74	2	1
Total home equity loans	124	6	5
Consumer other Key Community Bank	11	1	1
Consumer other:			
Marine	139	17	17
Other	11	1	
Total consumer other	150	18	17
Total consumer loans	341	32	30
Total nonperforming TDRs	463	247	163
Prior-year accruing [(a)]			
Commercial, financial and agricultural	115	8	6
Commercial real estate:			
Real estate commercial mortgage	7	71	48
Real estate construction	1	15	1
Total commercial real estate loans	8	86	49
Total commercial loans	123	94	55
Real estate residential mortgage	111	11	11
Home equity:			
Key Community Bank	88	7	7
Other	101	3	3
Total home equity loans	189	10	10
Consumer other Key Community Bank	20	1	
Consumer other:			
Marine	135	34	33
Other	53	2	2
Total consumer other	188	36	35
Total consumer loans	508	58	56

Total prior-year accruing TDRs	631	152	111
Total TDRs	1,094	$ 399	$ 274

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

We classify loan modifications as TDRs when a borrower is experiencing financial difficulties and we have granted a concession to the borrower without commensurate financial, structural, or legal consideration. All commercial and consumer loan TDRs, regardless of size, are evaluated for impairment individually to determine the probable loss content and are assigned a specific loan allowance if deemed appropriate. The financial effects of TDRs are reflected in the components that comprise the allowance for loan and lease losses in either the amount of charge-offs or loan loss provision and appropriately impact the ultimate allowance level.

Commercial and consumer loan TDRs are considered subsequently defaulted at 90 days past due and when they are greater than 60 days past due, respectively, for principal and interest payments. There were no significant commercial or consumer loans that were designated as TDRs during calendar year 2011, for which there was a payment default during the first six months of 2012.

Our loan modifications are handled on a case by case basis and are negotiated to achieve mutually agreeable terms that maximize loan collectability and meet our client s financial needs. A majority of our concessions granted to borrowers are in the form of interest rate reductions. Other concession types include forgiveness of principal and other modifications of loan terms. Consumer loan concessions include Home Affordable Modification Program (HAMP) loans of approximately $4

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million as of June 30, 2012. These loan concessions have successfully completed the required trial period under HAMP and as a result have been permanently modified and are included in consumer TDRs.

The following table shows the concession types for our commercial accruing and nonaccruing TDRs.

dollars in millions	**June 30, 2012**	December 31, 2011	June 30, 2011
Interest rate reduction	**$ 155**	$ 177	$ 175
Forgiveness of principal	**13**	23	10
Other modification of loan terms	**20**	8	6
Total	**$ 188**	$ 208	$ 191
Total commercial and consumer TDRs [a]	**$ 274**	$ 276	$ 252
Total commercial TDRs to total commercial loans	**.54 %**	.60 %	.58 %
Total commercial TDRs to total loans	**.38**	.42	.40
Total commercial loans	**$ 34,603**	$ 34,782	$ 32,688
Total loans	**49,605**	49,575	47,840

(a) Commitments outstanding to lend additional funds to borrowers whose terms have been modified in TDRs are $45 million, $25 million, and $45 million at June 30, 2012, December 31, 2011, and June 30, 2011, respectively.

Our policies for determining past due loans, placing loans on nonaccrual, applying payments on nonaccrual loans and resuming accrual of interest for our commercial and consumer loan portfolios are disclosed in Note 1 (Summary of Significant Accounting Policies) under the heading Nonperforming Loans on page 117 of our 2011 Annual Report on Form 10-K. Pursuant to regulatory guidance issued in January 2012, the above-mentioned policy for nonperforming loans was revised effective for the second quarter of 2012. As of June 30, 2012, any second lien home equity loan with an associated first lien that is: 120 days or more past due; in foreclosure; or when the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan. This policy was implemented prospectively, and, therefore, prior periods were not presented.

At June 30, 2012, approximately $48.5 billion, or 98%, of our total loans are current. At June 30, 2012, total past due loans and nonperforming loans of $1.2 billion represent approximately 2% of total loans.

The following aging analysis as of June 30, 2012 and 2011, of past due and current loans provides further information regarding Key s credit exposure.

June 30, 2012 *in millions*	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 and Greater Days Past Due**	**Nonperforming Loans [a]**	**Total Past Due and Nonperforming Loans**	**Total Loans**
LOAN TYPE							
Commercial, financial and agricultural	$ 20,148	$ 60	$ 13	$ 24	$ 141	$ 238	$ 20,386
Commercial real estate:							
Commercial mortgage	7,182	15	16	24	172	227	7,409
Construction	1,033	12	24	35	68	139	1,172
Total commercial real estate loans	8,215	27	40	59	240	366	8,581
Commercial lease financing	5,581	22	8	7	18	55	5,636

Total commercial loans	$ 33,944	$ 109	$ 61	$ 90	$ 399	$ 659	$ 34,603
Real estate residential mortgage	$ 1,895	$ 24	$ 10	$ 9	$ 78	$ 121	$ 2,016
Home equity:							
Key Community Bank	9,361	56	26	17	141	240	9,601
Other	445	10	4	3	17	34	479
Total home equity loans	9,806	66	30	20	158	274	10,080
Consumer other Key Community Bank	1,237	13	4	7	2	26	1,263
Consumer other:							
Marine	1,478	31	10	4	19	64	1,542
Other	95	2	2	1	1	6	101
Total consumer other	1,573	33	12	5	20	70	1,643
Total consumer loans	$ 14,511	$ 136	$ 56	$ 41	$ 258	$ 491	$ 15,002
Total loans	$ 48,455	$ 245	$ 117	$ 131	$ 657	$ 1,150	$ 49,605

(a) Includes $36 million of performing home equity second liens at June 30, 2012, that are subordinate to first liens that are 120 days or more past due; in foreclosure; or when the first mortgage delinquency is unknown. Such second liens are now being reported as nonperforming loans based upon regulatory guidance issued in January 2012.

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June 30, 2011 *in millions*	Current	30-59 Days Past Due	60-89 Days Past Due	90 and Greater Days Past Due	Nonperforming Loans	Total Past Due and Nonperforming Loans	Total Loans
LOAN TYPE							
Commercial, financial and agricultural	$ 16,599	$ 35	$ 17	$ 19	$ 213	$ 284	$ 16,883
Commercial real estate:							
Commercial mortgage	7,743	34	51	11	230	326	8,069
Construction	1,437	11	24	28	131	194	1,631
Total commercial real estate loans	9,180	45	75	39	361	520	9,700
Commercial lease financing	5,983	20	40	21	41	122	6,105
Total commercial loans	$ 31,762	$ 100	$ 132	$ 79	$ 615	$ 926	$ 32,688
Real estate residential mortgage	$ 1,713	$ 24	$ 14	$ 8	$ 79	$ 125	$ 1,838
Home equity:							
Key Community Bank	9,216	66	32	16	101	215	9,431
Other	559	13	7	5	11	36	595
Total home equity loans	9,775	79	39	21	112	251	10,026
Consumer other Key Community Bank	1,129	14	4	7	3	28	1,157
Consumer other:							
Marine	1,898	42	14	3	32	91	1,989
Other	138	2	1		1	4	142
Total consumer other	2,036	44	15	3	33	95	2,131
Total consumer loans	$ 14,653	$ 161	$ 72	$ 39	$ 227	$ 499	$ 15,152
Total loans	$ 46,415	$ 261	$ 204	$ 118	$ 842	$ 1,425	$ 47,840

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

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

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

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Credit quality indicators for our commercial and consumer loan portfolios based on bond rating, regulatory classification and payment activity as of June 30, 2012, and June 30, 2011, are as follows:

Commercial Credit Exposure

Credit Risk Profile by Creditworthiness Category [(a)]

June 30,
in millions

	Commercial, financial and agricultural		RE Commercial		RE Construction		Commercial Lease		Total	
RATING [(b) (c)]	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
AAA AA	**$ 165**	$ 100		$ 2	**$ 1**	$ 3	**$ 605**	$ 655	**$ 771**	$ 760
A	**680**	671	**$ 64**	63	**1**	1	**992**	1,245	**1,737**	1,980
BBB BB	**17,652**	13,546	**5,925**	5,553	**791**	747	**3,709**	3,590	**28,077**	23,436
B	**868**	955	**553**	941	**58**	262	**197**	343	**1,676**	2,501
CCC C	**1,021**	1,611	**867**	1,510	**321**	618	**133**	272	**2,342**	4,011
Total	**$ 20,386**	$ 16,883	**$ 7,409**	$ 8,069	**$ 1,172**	$ 1,631	**$ 5,636**	$ 6,105	**$ 34,603**	$ 32,688

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

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

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

Consumer Credit Exposure

Credit Risk Profile by Regulatory Classifications [(a) (b)]

June 30,
in millions

Residential Prime

GRADE	2012	2011
Pass	$ **11,831**	$ 11,644
Substandard	**265**	220
Total	$ **12,096**	$ 11,864

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

June 30,	Consumer Key Community Bank		Consumer Marine		Consumer Other		Total	
in millions	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Performing	$ **1,261**	$ 1,154	$ **1,523**	$ 1,957	$ **100**	$ 141	$ **2,884**	$ 3,252
Nonperforming	**2**	3	**19**	32	**1**	1	**22**	36
Total	$ **1,263**	$ 1,157	$ **1,542**	$ 1,989	$ **101**	$ 142	$ **2,906**	$ 3,288

(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. As of June 30, 2012, any second lien home equity loan with an associated first lien: that is 120 days or more past due; in foreclosure; or when the first mortgage delinquency timeframe is unknown, is reported as a nonperforming loan in accordance with regulatory guidance issued in January 2012.

We determine the appropriate level of the ALLL on at least a quarterly basis. The methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses beginning on page 117 of our 2011 Annual Report on Form 10-K. We apply expected loss rates to existing loans with similar risk characteristics as noted in the credit quality indicator table above and exercise judgment to assess the impact of factors such as changes in economic conditions, changes in credit policies or underwriting standards, and changes in the level of credit risk associated with specific industries and markets.

For all commercial and consumer loan TDRs, regardless of size, as well as impaired commercial loans with an outstanding balance greater than $2.5 million, we conduct further analysis to determine the probable loss content and assign a specific allowance to the loan if deemed appropriate. We estimate the extent of impairment by comparing the recorded investment of the loan with the estimated present value of its future cash flows, the fair value of its underlying collateral, or the loan s observable market price. A specific allowance also may be assigned even when sources of repayment appear sufficient if we remain uncertain about whether the loan will be repaid in full. On at least a quarterly basis, we evaluate the appropriateness of our loss estimation methods to reduce differences between estimated incurred losses and actual losses. The ALLL at June 30, 2012 represents our best estimate of the probable credit losses inherent in the loan portfolio at that date

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

Commercial loans generally are charged off in full or charged down to the fair value of the underlying collateral when the borrower s payment is 180 days past due. Our charge-off policy for most consumer loans is similar but takes effect 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.

At June 30, 2012, the ALLL was $888 million, or 1.79% of loans, compared to $1.2 billion, or 2.57% of loans, at June 30, 2011. At June 30, 2012, the ALLL was 135.16% of nonperforming loans compared to 146.08% at June 30, 2011.

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

in millions	**Three months ended June 30, 2012**	**2011**	**Six months ended June 30, 2012**	**2011**
Balance at beginning of period continuing operations	**$ 944**	$ 1,372	**$ 1,004**	$ 1,604
Charge-offs	**(131)**	(177)	**(263)**	(409)
Recoveries	**54**	43	**85**	82
Net loans charged off	**(77)**	(134)	**(178)**	(327)
Provision for loan and lease losses from continuing operations	**21**	(8)	**63**	(48)
Foreign currency translation adjustment			**(1)**	1
Balance at end of period continuing operations	**$ 888**	$ 1,230	**$ 888**	$ 1,230

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

in millions	**December 31, 2011**	**Provision**	**Charge-offs**	**Recoveries**	**June 30, 2012**
Commercial, financial and agricultural	$ 334	**$ (12)**	**$ (49)**	**$ 31**	**$ 304**
Real estate commercial mortgage	272	**8**	**(46)**	**16**	**250**
Real estate construction	63	**6**	**(16)**	**2**	**55**
Commercial lease financing	78		**(20)**	**10**	**68**
Total commercial loans	747	**2**	**(131)**	**59**	**677**
Real estate residential mortgage	37		**(13)**	**2**	**26**
Home equity:					
Key Community Bank	103	**21**	**(48)**	**4**	**80**
Other	29	**9**	**(17)**	**3**	**24**
Total home equity loans	132	**30**	**(65)**	**7**	**104**
Consumer other Key Community Bank	41	**10**	**(20)**	**3**	**34**
Consumer other:					
Marine	46	**15**	**(30)**	**13**	**44**
Other	1	**5**	**(4)**	**1**	**3**
Total consumer other:	47	**20**	**(34)**	**14**	**47**

Total consumer loans		257		**60**		**(132)**		**26**		**211**
Total ALLL continuing operations		1,004		**62** [(a)]		**(263)**		**85**		**888**
Discontinued operations		104		**6**		**(39)**		**8**		**79**
Total ALLL including discontinued operations	$	1,108	**$**	**68**	**$**	**(302)**	**$**	**93**	**$**	**967**

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

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in millions	December 31, 2010	Provision	Charge-offs	Recoveries	June 30, 2011
Commercial, financial and agricultural	$ 485	$ (22)	$ (93)	$ 25	$ 395
Real estate commercial mortgage	416	(18)	(62)	7	343
Real estate construction	145	15	(62)	8	106
Commercial lease financing	175	(53)	(26)	11	107
Total commercial loans	1,221	(78)	(243)	51	951
Real estate residential mortgage	49	7	(17)	2	41
Home equity:					
Key Community Bank	120	30	(53)	2	99
Other	57	4	(26)	2	37
Total home equity loans	177	34	(79)	4	136
Consumer other Key Community Bank	57	9	(23)	4	47
Consumer other:					
Marine	89	(14)	(42)	19	52
Other	11	(5)	(5)	2	3
Total consumer other:	100	(19)	(47)	21	55
Total consumer loans	383	31	(166)	31	279
Total ALLL continuing operations	1,604	(47) (a)	(409)	82	1,230
Discontinued operations	114	62	(73)	6	109
Total ALLL including discontinued operations	$ 1,718	$ 15	$ (482)	$ 88	$ 1,339

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

Our ALLL decreased by $342 million, or 28%, since the second quarter of 2011. This contraction was associated with the improvement in credit quality of our loan portfolios, which has trended more favorably over the past six quarters. Our asset quality metrics have showed continued improvement and, therefore, resulted in favorable risk rating migration and a reduction in our general allowance. Our general allowance encompasses the application of expected loss rates to our existing loans with similar risk characteristics and an assessment of factors such as changes in economic conditions and changes in credit policies or underwriting standards. Our delinquency trends showed continued improvement during 2011 and the first-half of 2012. We attribute this improvement to a more moderate level of lending activity, more favorable conditions in the capital markets, improvement in client income statements, and continued run off in our exit loan portfolio.

For continuing operations, the loans outstanding individually evaluated for impairment totaled $411 million, with a corresponding allowance of $48 million at June 30, 2012. Loans outstanding collectively evaluated for impairment totaled $49.2 billion, with a corresponding allowance of $840 million at June 30, 2012.

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

	Allowance (a)			Outstanding (a)	
	Individually	Collectively		Individually	Collectively
June 30, 2012 *in millions*	Evaluated for Impairment	Evaluated for Impairment	Loans	Evaluated for Impairment	Evaluated for Impairment
Commercial, financial and agricultural	$ 12	$ 292	$ 20,386	$ 102	$ 20,284
Commercial real estate:					
Commercial mortgage	15	235	7,409	168	7,241
Construction	3	52	1,172	55	1,117
Total commercial real estate loans	18	287	8,581	223	8,358
Commercial lease financing		68	5,636		5,636
Total commercial loans	30	647	34,603	325	34,278
Real estate residential mortgage	2	24	2,016	17	1,999
Home equity:					
Key Community Bank	3	77	9,601	11	9,590
Other	1	23	479	6	473
Total home equity loans	4	100	10,080	17	10,063
Consumer other Key Community Bank	1	33	1,263	2	1,261
Consumer other:					
Marine	11	33	1,542	50	1,492
Other		3	101		101
Total consumer other	11	36	1,643	50	1,593
Total consumer loans	18	193	15,002	86	14,916
Total ALLL continuing operations	48	840	49,605	411	49,194
Discontinued operations		79	5,483 (b)		5,483
Total ALLL including discontinued operations	$ 48	$ 919	$ 55,088	$ 411	$ 54,677

(a) There were no loans acquired with deteriorated credit quality at June 30, 2012.

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

A breakdown of the individual and collective ALLL and the corresponding loan balances as of June 30, 2011 follows:

	Allowance (a)			Outstanding (a)	
	Individually	Collectively		Individually	Collectively
June 30, 2011 *in millions*	Evaluated for Impairment	Evaluated for Impairment	Loans	Evaluated for Impairment	Evaluated for Impairment
Commercial, financial and agricultural	$ 14	$ 381	$ 16,883	$ 159	$ 16,724
Commercial real estate:					
Commercial mortgage	21	322	8,069	213	7,856

Construction	11	95	1,631	116	1,515
Total commercial real estate loans	32	417	9,700	329	9,371
Commercial lease financing		107	6,105		6,105
Total commercial loans	46	905	32,688	488	32,200
Real estate residential mortgage		41	1,838		1,838
Home equity:					
Key Community Bank		99	9,431		9,431
Other		37	595		595
Total home equity loans		136	10,026		10,026
Consumer other Key Community Bank		47	1,157		1,157
Consumer other:					
Marine		52	1,989		1,989
Other		3	142		142
Total consumer other		55	2,131		2,131
Total consumer loans		279	15,152		15,152
Total ALLL continuing operations	46	1,184	47,840	488	47,352
Discontinued operations		109	6,261		6,261
Total ALLL including discontinued operations	$ 46	$ 1,293	$ 54,101	$ 488	$ 53,613

(a) There were no loans acquired with deteriorated credit quality at June 30, 2011.

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The liability for credit losses inherent in lending-related commitments, such as letters of credit and unfunded loan commitments, is included in accrued expense and other liabilities on the balance sheet. We establish the amount of this reserve by considering both historical trends and current market conditions quarterly, or more often if deemed necessary. Our liability for credit losses on lending-related commitments has decreased by $6 million since the second quarter of 2011 to $51 million at June 30, 2012. When combined with our ALLL, our total allowance for credit losses represented 1.89% of loans at June 30, 2012, compared to 2.69% at June 30, 2011.

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2012**	**2011**	**2012**	**2011**
Balance at beginning of period	**$ 45**	$ 69	**$ 45**	$ 73
Provision (credit) for losses on lending-related commitments	**6**	(12)	**6**	(16)
Balance at end of period	**$ 51**	$ 57	**$ 51**	$ 57

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5. Fair Value Measurements

Fair Value Determination

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

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

¿ the amount of time since the last relevant valuation;

¿ whether there is an actual trade or relevant external quote available at the measurement date; and

¿ volatility associated with the primary pricing components.

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

¿ an independent review and approval of valuation models and assumptions;

¿ recurring detailed reviews of profit and loss; and

¿ a validation of valuation model components against benchmark data and similar products, where possible.

We recognize transfers between levels of the fair value hierarchy at the end of the reporting period. Quarterly, we review any changes to our valuation methodologies to ensure they are appropriate and justified, and refine our valuation methodologies if more market-based data becomes available. The Fair Value Committee, which is governed by ALCO, oversees the valuation process for all lines of business and support areas, as applicable. Various Working Groups that report to the Fair Value Committee analyze and approve the valuation methodologies used to fair value assets and liabilities managed within specific areas. The Working Groups are discussed in more detail in the qualitative disclosures within this footnote and in Note 11 (Acquisition and Discontinued Operations). Formal documentation in the form of fair value valuation methodologies are prepared by the lines of business and support areas as appropriate detailing the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level, market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

Additional information regarding our accounting policies for determining fair value is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Fair Value Measurements on page 122 of our 2011 Annual Report on Form 10-K.

Qualitative Disclosures of Valuation Techniques

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

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

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

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

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

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

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

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

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

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

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

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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 value of the assets are reviewed and adjusted quarterly. Periodically, a third-party appraisal is obtained for the investment to validate the specific inputs for determining fair value.

Inputs used in calculating future cash flows include the cost of build-out, future selling prices, current market outlook, and operating performance of the investment. Investment income and expense assumptions are based on market inputs, such as rental/leasing rates and vacancy rates for the geographic- and property type-specific markets. For investments under construction, investment income and expense assumptions are determined using expected future build-out costs and anticipated future rental prices based on current market conditions, discount rates, holding period, the terminal cap rate and sales commissions paid in the terminal cap year. For investments that are in lease-up or are fully leased, income and expense assumptions are based on the current geographic market lease rates, underwritten expenses, market lease terms, and historical vacancy rates. Asset Management validates these inputs on a quarterly basis through the use of industry publications, third-party broker opinions, and comparable property sales, where applicable. Changes in the significant inputs (rental/leasing rates, vacancy rates, valuation capitalization rate, discount rate, and terminal cap rate) would significantly affect the fair value measurement. Increases in rental/leasing rates would increase fair value while increases in the vacancy rates, the valuation capitalization rate, the discount rate, and the terminal cap rate would decrease fair value.

Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to use statements from the investment manager to calculate net asset value per share. A primary input used in estimating fair value is the most recent value of the capital accounts as reported by the general partners of the funds in which we invest. The calculation to determine the investment s fair value is based on our percentage ownership in the fund multiplied by the net asset value of the fund, as provided by the fund manager.

Investments in real estate private equity funds are included within private equity and mezzanine investments. The main purpose of these funds is to acquire a portfolio of real estate investments that provides attractive risk-adjusted returns and current income for investors. Certain of these investments do not have readily determinable fair values and represent our ownership interest in an entity that follows measurement principles under investment company accounting. The following table presents the fair value of our indirect investments and related unfunded commitments at June 30, 2012:

June 30, 2012 *in millions*	**Fair Value**	**Unfunded Commitments**
INVESTMENT TYPE		
Passive funds [(a)]	$ 18	$ 3
Co-managed funds [(b)]	25	3
Total	$ 43	$ 6

(a) We invest in passive funds, which are multi-investor private equity funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. Some funds have no restrictions on sale, while others require investors to remain in the fund until maturity. The funds will be liquidated over a period of one to seven years.

(b) We are a manager or co-manager of these funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments in the funds. In addition, we receive management fees. We can sell or transfer our interest in any of these funds with the written consent of a majority of the fund s investors. In one instance, the other co-manager of the fund must consent to the sale or transfer of our interest in the fund. The funds will mature over a period of two to five years.

Principal investments. Principal investments consist of investments in equity and debt instruments made by our principal investing entities. They include direct investments (investments made in a particular company), as well as indirect investments (investments made through funds that include other investors). During the first half of 2011, employees who managed our various principal investments formed two independent entities that serve as investment managers of these investments going forward. Under this new arrangement, which was mutually agreeable to both parties, these individuals are no longer employees of Key.

Each investment is adjusted to fair value with any net realized or unrealized gain/loss recorded in the current period s earnings. This process is a coordinated and documented effort by the Principal Investing Entities Deal Team (comprised of individuals from one of the independent investment managers noted above), the Key Principal Partners (KPP) Controller and certain members of the KPP Controller s staff, a member of Key s senior management team, and the Investment

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Committee (members comprised of individuals from Key and one of the independent investment managers). This process involves an in-depth review of the condition of each investment depending on the type of investment.

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

Interest-bearing securities (i.e., loans) are valued on a quarterly basis. Valuation adjustments are determined by the Principal Investing Entities Deal Team and are subject to approval by the Investment Committee. Valuations of debt instruments are based on the Principal Investing Entities Deal Team s knowledge of the current financial status of the subject company, which is regularly monitored throughout the term of the investment. Significant unobservable inputs used in the valuations of these investments include the company s payment history, adequacy of cash flows from operations, and current operating results, including market multiples, and historical and forecast earnings before interest, taxation, depreciation, and amortization. Inputs can also include the seniority of the debt, the nature of any pledged collateral, the extent to which the security interest is perfected and the net liquidation value of collateral.

Valuations of equity instruments of private companies, which are prepared on a quarterly basis, are based on current market conditions and the current financial status of each company. A valuation analysis is performed to value each investment that is reviewed by the Principal Investing Entities Deal Team Member as well as reviewed and approved by the Chief Administrative Officer of one of the independent investment managers. Significant unobservable inputs used in these valuations include adequacy of the company s cash flows from operations, any significant change in the company s performance since the prior valuation and any significant equity issuances by the company. Equity instruments of public companies are valued using quoted prices in an active market for the identical security. If the instrument is restricted, the fair value is determined considering the number of shares traded daily, the number of the company s total restricted shares, and price volatility.

Our indirect investments are classified as Level 3 assets since our significant inputs are not observable in the marketplace. Indirect investments include primary and secondary investments in private equity funds engaged mainly in venture- and growth-oriented investing. These investments do not have readily determinable fair values. Indirect investments are valued using a methodology that is consistent with accounting guidance that allows us to estimate fair value based upon net asset value per share (or its equivalent, such as member units or an ownership interest in partners capital to which a proportionate share of net assets is attributed). The significant unobservable input used in estimating fair value is primarily the most recent value of the capital accounts as reported by the general partners of the funds in which we invest.

For indirect investments, management makes adjustments as deemed appropriate to the net asset value and only if it is determined that the net asset value does not properly reflect fair value. In determining the need for an adjustment to net asset value, management performs an analysis of the private equity funds based on the independent fund manager s valuations as well as management s own judgment. Significant unobservable inputs used in these analyses include current fund financial information provided by the fund manager, an estimate of future proceeds expected to be received on the investment, and market multiples. Management also considers whether the independent fund manager adequately marks down an impaired investment, maintains financial statements in accordance with GAAP, or follows a practice of holding all investments at cost.

The following table presents the fair value of our indirect investments and related unfunded commitments at June 30, 2012:

June 30, 2012 *in millions*	**Fair Value**	**Unfunded Commitments**
INVESTMENT TYPE		
Private equity funds [(a)]	$ 478	$ 106
Hedge fund[(b)]	4	
Total	$ 482	$ 106

(a) Consists of buyout, venture capital, and fund of funds. These investments can never be redeemed. Instead, distributions are received through the liquidation of the underlying investments of the fund. An investment in any one of these funds can be sold only with the approval of the fund s general partners. We estimate that the underlying investments of the funds will be liquidated over a period of one to ten years.

(b) Consists of a fund invested in long and short positions of stressed and distressed fixed income-oriented securities, with the goal of producing attractive risk-adjusted returns. The investments can be redeemed quarterly with 45 days notice. However, the fund s general partners may impose quarterly redemption limits that may delay receipt of requested redemptions.

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with GAAP. The following tables present these assets and liabilities at June 30, 2012 and December 31, 2011.

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June 30, 2012 *in millions*	Level 1	Level 2	Level 3	Total
ASSETS MEASURED ON A RECURRING BASIS				
Short-term investments:				
Securities purchased under resale agreements		$ 338		$ 338
Trading account assets:				
U.S. Treasury, agencies and corporations		438		438
States and political subdivisions		27	$ 57	84
Collateralized mortgage obligations		16		16
Other mortgage-backed securities		100	1	101
Other securities	$ 3	37		40
Total trading account securities	3	618	58	679
Commercial loans				
Total trading account assets	3	618	58	679
Securities available for sale:				
States and political subdivisions		$ 56		$ 56
Collateralized mortgage obligations		12,477		12,477
Other mortgage-backed securities		652		652
Other securities	$ 20			20
Total securities available for sale	20	13,185		13,205
Other investments:				
Principal investments:				
Direct	$ 11		$ 231	$ 242
Indirect			482	482
Total principal investments	11		713	724
Equity and mezzanine investments:				
Direct			$ 18	$ 18
Indirect			43	43
Total equity and mezzanine investments			61	61
Total other investments	11		774	785
Derivative assets:				
Interest rate		$ 1,824	$ 35	$ 1,859
Foreign exchange	$ 81	26		107
Energy and commodity		209		209
Credit		19	6	25
Equity				
Derivative assets	81	2,078	41	2,200
Netting adjustments[(a)]				(1,382)
Total derivative assets	81	2,078	41	818
Accrued income and other assets	2	134		136
Total assets on a recurring basis at fair value	$ 117	$ 16,353	$ 873	$ 15,961
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 481		$ 481
Bank notes and other short-term borrowings:				

Short positions	$	3		360				363
Derivative liabilities:								
Interest rate				1,310				1,310
Foreign exchange		81		24				105
Energy and commodity				203	$	1		204
Credit				23		1		24
Equity								
Derivative liabilities		81		1,560		2		1,643
Netting adjustments[(a)]								(880)
Total derivative liabilities		81		1,560		2		763
Accrued expense and other liabilities				4				4
Total liabilities on a recurring basis at fair value	$	84	$	2,405	$	2	$	1,611

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

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December 31, 2011 *in millions*	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A RECURRING BASIS				
Short term investments:				
Securities purchased under resale agreements		$ 236		$ 236
Trading account assets:				
U.S. Treasury, agencies and corporations		353		353
States and political subdivisions		81		81
Collateralized mortgage obligations		19		19
Other mortgage-backed securities		27	$ 35	62
Other securities	$ 79	29		108
Total trading account securities	79	509	35	623
Commercial loans				
Total trading account assets	79	509	35	623
Securities available for sale:				
States and political subdivisions		63		63
Collateralized mortgage obligations		15,162		15,162
Other mortgage-backed securities		778		778
Other securities	9			9
Total securities available for sale	9	16,003		16,012
Other investments:				
Principal investments:				
Direct	11		225	236
Indirect			473	473
Total principal investments	11		698	709
Equity and mezzanine investments:				
Direct			15	15
Indirect			36	36
Total equity and mezzanine investments			51	51
Total other investments	11		749	760
Derivative assets:				
Interest rate		1,915	38	1,953
Foreign exchange	86	65		151
Energy and commodity		253		253
Credit		30	7	37
Equity		3		3
Derivative assets	86	2,266	45	2,397
Netting adjustments [a]				(1,452)
Total derivative assets	86	2,266	45	945
Accrued income and other assets	7	105		112
Total assets on a recurring basis at fair value	$ 192	$ 19,119	$ 829	$ 18,688
LIABILITIES MEASURED ON A RECURRING BASIS				
Federal funds purchased and securities sold under repurchase agreements:				
Securities sold under repurchase agreements		$ 292		$ 292
Bank notes and other short-term borrowings:				
Short positions		337		337
Derivative liabilities:				
Interest rate		1,398		1,398

Foreign exchange	$ 79	209		288
Energy and commodity		252	$ 1	253
Credit		34	28	62
Equity		3		3
Derivative liabilities	79	1,896	29	2,004
Netting adjustments [a]				(978)
Total derivative liabilities	79	1,896	29	1,026
Accrued expense and other liabilities	23	22		45
Total liabilities on a recurring basis at fair value	$ 102	$ 2,547	$ 29	$ 1,700

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

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Changes in Level 3 Fair Value Measurements

The following table shows the change in the fair values of our Level 3 financial instruments for the three and six months ended June 30, 2012 and 2011. 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.

	Trading Account Assets		Other Investments				Derivative Instruments [a]		
	Other		Principal Investments		Equity and Mezzanine Investments				
in millions	Mortgage-Backed Securities	Other Securities	Direct	Indirect	Direct	Indirect	Interest Rate	Energy and Commodity	Credit
Balance at December 31, 2011	$ 35		$ 225	$ 473	$ 15	$ 36	$ 38	$ (1)	$ (21)
Gains (losses) included in earnings	**2** [b]	**$ (2)** [b]	**8** [c]	**43** [c]	**3** [c]	**6** [c]	**(3)** [b]	[b]	**(7)** [b]
Purchases			**10**	**20**		**4**	**1**		
Sales	**(32)**		**(12)**	**(54)**			**(1)**		
Issuances									
Settlements		**2**				**(3)**			**33**
Transfers into Level 3		**57** [d]					**4** [d]		
Transfers out of Level 3	**(4)** [d]						**(4)** [d]		
Balance at June 30, 2012	**$ 1**	**57**	**$ 231**	**$ 482**	**$ 18**	**$ 43**	**$ 35**	**$ (1)**	**$ 5**
Unrealized gains (losses) included in earnings	[b]	**$ (2)** [b]	**$ 8** [c]	**$ 28** [c]	**$ 10** [c]	**$ 6** [c]	[b]	[b]	[b]
Balance at March 31, 2012	**$ 1**	**$**	**$ 226**	**$ 485**	**$ 15**	**$ 42**	**$ 36**	**(1)**	**$ 5**
Gains (losses) included in earnings	[b]	**(5)** [b]	**7** [c]	**20** [c]	**3** [c]	**5** [c]	**2** [b]	[b]	**(2)** [b]
Purchases			**9**	**10**		**1**			
Sales			**(11)**	**(33)**					
Issuances									
Settlements		**5**				**(2)**			**2**
Transfers into Level 3		**57** [d]				**(3)** [d]			
Transfers out of Level 3							**(3)** [d]		
	$ 1	**57**	**$ 231**	**$ 482**	**$ 18**	**$ 43**	**$ 35**	**(1)**	**$ 5**

Balance at June 30, 2012									
Unrealized gains (losses) included in earnings	(b)	**(5)** (b)	**$ 7** (c)	**$ 9** (c)	**$ 4** (c)	**$ 2** (c)	(b)	(b)	(b)
Balance at December 31, 2010	$ 1	$ 21	$ 372	$ 526	$ 20	$ 30	$ 75	$ 1	$ 11
Gains (losses) included in earnings	(b)	(b)	2 (c)	43 (c)	13 (c)	(c)	14 (b)	(1) (b)	(10) (b)
Purchases		3	30	46		9	11		
Sales			(9)	(36)			(20)		
Issuances									
Settlements		(24)			(19)	(3)			7
Transfers into Level 3							10		
Transfers out of Level 3			(125) (e)	(109) (e)		(3)	(9)		
Balance at June 30, 2011	$ 1	$	$ 270	$ 470	$ 14	$ 33	$ 81	$	$ 8
Unrealized gains (losses) included in earnings	(b)	$ 3 (b)	$ 8 (c)	$ 28 (c)	$ 32 (c)	$ (3) (c)	(b)	(b)	(b)
Balance at March 31, 2011	$ 1		$ 395	$ 548	$ 25	$ 27	$ 81		$ 4
Gains (losses) included in earnings	(b)	$ 3 (b)	(c)	10 (c)	8 (c)	1 (c)	10 (b)	(b)	(9) (b)
Purchases			2	32		7	11		6
Sales			(2)	(11)			(18)		
Issuances									
Settlements		(3)			(19)	(2)			7
Transfers into Level 3							3		
Transfers out of Level 3			(125) (e)	(109) (e)			(6)		
Balance at June 30, 2011	$ 1		$ 270	$ 470	$ 14	$ 33	$ 81		$ 8
Unrealized gains (losses) included in earnings	(b)	$ 3 (b)	$ 6 (c)	$ 4 (c)	$ 22 (c)	$ 1 (c)	(b)	(b)	(b)

(a) Amounts represent Level 3 derivative assets less Level 3 derivative liabilities.

(b) Realized and unrealized gains and losses on trading account assets and derivative instruments are reported in investment banking and capital markets income (loss) 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 gains and losses on private equity and mezzanine investments are reported in investment banking and capital markets income (loss) on the income statement.

(d) Our policy is to recognize transfers into and transfers out of Level 3 as of the end of the reporting period.

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(e) Transfers out of Level 3 for principal investments represent investments that were deconsolidated during the second quarter of 2011 when employees who managed our various principal investments left Key and formed two independent entities that will serve as investment managers of these investments.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis in accordance with GAAP. The adjustments to fair value generally result from the application of accounting guidance that requires assets and liabilities to be recorded at the lower of cost or fair value, or assessed for impairment. The following table presents our assets measured at fair value on a nonrecurring basis at June 30, 2012 and December 31, 2011:

	June 30, 2012				**December 31, 2011**			
in millions	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A NONRECURRING BASIS								
Impaired loans			**$ 81**	**$ 81**			$ 149	$ 149
Loans held for sale [a]			**15**	**15**			15	15
Accrued income and other assets		**$ 17**	**25**	**42**		$ 19	25	44
Total assets on a nonrecurring basis at fair value		**$ 17**	**$ 121**	**$ 138**		$ 19	$ 189	$ 208

(a) During the first half of 2012, we transferred $38 million of commercial and consumer loans and leases from held-for-sale status to the held-to-maturity portfolio at their current fair value.

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

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

Subject loans are evaluated for impairment on a quarterly basis. Loans included in the previous quarter s review are reevaluated and if their values are materially different from the prior quarter evaluation, the underlying information (loan balance and in most cases, collateral value) are compared. Material differences are evaluated for reasonableness, and discussions are held between the relationship manager and their senior manager to understand the difference and determine if any adjustment is necessary. The inputs are developed and substantiated on a quarterly basis, based on current borrower developments, market conditions and collateral values.

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

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

¿

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

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

Loans held for sale. Through a quarterly analysis of our loan portfolios held for sale, which include both performing and nonperforming loans, we determined that adjustments were necessary to record some of the portfolios at the lower of cost or fair value in accordance with GAAP. Loans held for sale portfolios adjusted to fair value totaled $15 million at June 30, 2012 and $15 million at December 31, 2011.

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

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

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

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

Valuations of direct financing leases and operating lease assets held for sale are performed using an internal model that relies on market data, such as swap rates and bond ratings, as well as our own assumptions about the exit market for the leases and details about the individual leases in the portfolio. The inputs based on our assumptions include changes in the value of leased items and internal credit ratings. These leases have been classified as Level 3 assets. Leases also may be valued using current nonbinding bids when they are available. These leases are classified as Level 2 assets. In a distressed market where market data is not available, an estimate of the fair value of the leased asset may be used to value the lease, resulting in a Level 3 classification. In an inactive market, the market value of the assets held for sale is determined as the present value of the future cash flows discounted at the current buy rate. Equipment Finance Accounting calculates an estimated fair value buy rate based on the credit premium inherent in the relevant bond index and the appropriate swap rate on the measurement date. The amount of the adjustment is calculated as book value minus the present value of future cash flows discounted at the calculated buy rate.

Goodwill and other intangible assets. On a quarterly basis, we review impairment indicators to determine whether we need to evaluate the carrying amount of the goodwill and other intangible assets assigned to Key Community Bank and Key Corporate Bank. We also perform an annual impairment test for goodwill. 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 service provider are reviewed by the appropriate individuals within Key to ensure that the assumptions used in preparing the analysis are appropriate and properly supported. For additional information on the results of recent goodwill impairment testing, see Note 10 (Goodwill and Other Intangible Assets) on page 161 of our 2011 Annual Report on Form 10-K.

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

Our primary assumptions include attrition rates, alternative costs of funds and rates paid on deposits. For additional information on the results of other intangible assets impairment testing, see Note 10 (Goodwill and Other Intangible Assets) on page 161 of our 2011 Annual Report on 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 due to our taking possession of the collateral, the Asset Recovery Group Loan Officer, in consultation with our OREO group, obtains a broker price opinion or a third-party appraisal, which is used to establish the fair value of the underlying collateral. The determined fair value of the underlying collateral less estimated selling costs becomes the carrying value of the OREO asset. In addition to valuations from independent third party sources, our OREO group also writes down the carrying balance of OREO assets once a bona fide offer is contractually accepted, through execution of a Purchase and Sale Agreement, where the accepted price is lower than the current balance of the particular OREO asset. The fair value of OREO property is re-evaluated every 90 days and the OREO asset is adjusted as necessary.

¿ Consumer Real Estate Valuation Process: The Asset Management team within our Risk Operations group is responsible for valuation policies and procedures in this area. The current vendor partner provides monthly reporting of all broker price opinion evaluations, appraisals and the monthly market plans. Market plans are reviewed monthly, and valuations are reviewed and tested monthly to ensure proper pricing has been established and guidelines are being met. Risk Operations Compliance validates and provides periodic testing of the valuation process. The Asset Management team reviews changes in fair value measurements. The current vendor partner managed brokers review pricing monthly, while third-party broker price opinions are reviewed every 90 days, and the fair value is written down based on changes to the valuation. External factors are documented and monitored as appropriate.

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

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 during the second quarter of 2012, along with the valuation techniques used, are shown in the following table:

June 30, 2012 *dollars in millions*	Fair Value of Level 3 Assets	Valuation Technique	Significant Unobservable Input	Range (Weighted-Average)
Recurring				
Other investments	$ 220			
principal investments direct:		Individual analysis of the condition of each investment		
Debt instruments			EBITDA multiple	4.8 - 8.2% (6.1%)
Equity instruments of private companies			EBITDA multiple (where applicable)	5.5 - 12.0% (4.8%)
			Revenue multiple (where applicable)	0.2 - 4.4% (0.6%)
Nonrecurring				
Impaired loans	81	Fair value of underlying collateral	Discount	0.00 - 100.00% (32%)
Goodwill	917	Discounted cash flow and market data	Earnings multiple of peers	8.30 - 11.90 (10.01)
			Equity multiple of peers	1.21 - 1.32 (1.27)
			Control premium	N/A (32.00%)
			Weighted-average cost of capital	N/A (15.00%)
Mortgage servicing assets	237	Discounted cash flow	Prepayment speed	0.00 - 25.00% (11.70%)
			Expected credit losses	1.00 - 3.00% (2.40%)
			Residual cash flows discount rate	7.00 - 15.00% (9.40%)
			Value assigned to escrow funds	0.50 - 3.75% (1.80%)
			Servicing cost	700 - 17,000 (2,512)
			Loan assumption rate	0.00 - 3.00% (2.18%)
			Percentage late	0.00 - 2.00% (0.22%)

Fair Value Disclosures of Financial Instruments

The levels in the fair value hierarchy ascribed to our financial instruments at June 30, 2012, along with the related carrying amounts and fair values at June 30, 2012 and December 31, 2011, are shown in the following table.

	June 30, 2012						December 31, 2011	
		Fair Value						
in millions	Carrying Amount	Level 1	Level 2	Level 3	Netting Adjustment	Total	Carrying Amount	Fair Value
ASSETS								
Cash and short-term investments [(a)]	**$ 2,933**	**$ 2,595**	**$ 338**			**$ 2,933**	$ 4,213	$ 4,213
Trading account assets [(e)]	**679**	**3**	**618**	**$ 58**		**679**	623	623
Securities available for sale [(e)]	**13,205**	**20**	**13,185**			**13,205**	16,012	16,012
Held-to-maturity securities [(b)]	**4,352**		**4,396**			**4,396**	2,109	2,133

Other investments [e]	**1,186**	**11**	**401**	**774**		**1,186**	1,163	1,163
Loans, net of allowance [c]	**48,717**			**47,912**		**47,912**	48,571	47,561
Loans held for sale [e]	**656**			**656**		**656**	728	728
Mortgage servicing assets [d]	**186**			**237**		**237**	173	245
Derivative assets [e]	**818**	**81**	**2,078**	**41**	**$ (1,382)** [f]	**818**	945	945
LIABILITIES								
Deposits with no stated maturity [a]	**$ 52,495**		**$ 52,495**			**$ 52,495**	$ 51,014	$ 51,014
Time deposits [d]	**9,672**	**$ 617**	**9,271**			**9,888**	10,942	11,253
Short-term borrowings [a]	**2,078**	**3**	**2,075**			**2,078**	2,048	2,048
Long-term debt [d]	**7,521**	**3,890**	**3,955**			**7,845**	9,520	9,792
Derivative liabilities [e]	**763**	**81**	**1,560**	**$ 2**	**$ (880)** [f]	**763**	1,026	1,026

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Valuation Methods and Assumptions

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

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

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

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

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

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

We use valuation methods based on exit market prices in accordance with applicable accounting guidance. We determine fair value based on assumptions pertaining to the factors a market participant would consider in valuing the asset. A substantial portion of our fair value adjustments are related to liquidity. During 2011 and into 2012, the fair values of our loan portfolios improved, primarily due to increasing liquidity in the loan markets. If we were to use different assumptions, the fair values shown in the preceding table could change significantly. If a nonexit price methodology were used for valuing our loan portfolio for continuing operations, it would result in a premium of .4%. 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), loans in portfolio (recorded at carrying value with appropriate valuation reserves) and loans held for sale (prior to the second quarter of 2011), all of which are outside the trusts. The fair value of loans held for sale was identical to the aggregate carrying amount of the loans. All of these loans were excluded from the table above as follows:

Loans at carrying value, net of allowance, of $2.8 billion ($2.4 billion at fair value) at June 30, 2012 and $2.9 billion ($2.5 billion at fair value) at December 31, 2011;

Portfolio loans at fair value of $73 million at June 30, 2012 and $76 million at December 31, 2011;

There were no loans held for sale at June 30, 2012 or December 31, 2011; and

Loans in the trusts at fair value of $2.6 billion at June 30, 2012 and $2.7 billion at December 31, 2011.
Securities issued by the education lending securitization trusts, which are the primary liabilities of the trusts, totaling $2.4 billion in fair value at June 30, 2012, and $2.5 billion in fair value at December 31, 2011, 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. Additional information regarding the consolidation of the education lending securitization trusts is provided in Note 11 (Acquisition and Discontinued Operations).

Residential real estate mortgage loans. Residential real estate mortgage loans with carrying amounts of $2 billion at June 30, 2012 and $1.9 billion at December 31, 2011 are included in Loans, net of allowance in the above table.

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

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6. Securities

Securities available for sale. These are securities that we intend to hold for an indefinite period of time; they may, however 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 net securities gains (losses) on the income statement. Unrealized losses on debt securities deemed to be other-than-temporary are included in net securities gains (losses) on the income statement or AOCI in accordance with the applicable accounting guidance related to the recognition of OTTI of debt securities.

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

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

Other securities held in the held-to-maturity portfolio consist of foreign bonds, capital securities and preferred equity 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 net securities gains (losses) on the income statement. Unrealized losses on debt securities deemed to be other-than-temporary are included in net securities gains (losses) on the income statement or AOCI in accordance with the applicable accounting guidance related to the recognition of OTTI of debt securities.

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

The increase in our held-to-maturity securities is invested in Federal Agency CMOs as we increased this portfolio in response to potential future changes in regulatory capital rules.

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	June 30, 2012			
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	**$ 53**	**$ 3**		**$ 56**
Collateralized mortgage obligations	**12,098**	**379**		**12,477**
Other mortgage-backed securities	**597**	**55**		**652**
Other securities	**20**	**1**	**$ 1**	**20**
Total securities available for sale	**$ 12,768**	**$ 438**	**$ 1**	**$ 13,205**
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	**$ 4,334**	**$ 44**		**$ 4,378**
Other securities	**18**			**18**
Total held-to-maturity securities	**$ 4,352**	**$ 44**		**$ 4,396**

	December 31, 2011			
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SECURITIES AVAILABLE FOR SALE				
States and political subdivisions	$ 60	$ 3		$ 63
Collateralized mortgage obligations	14,707	455		15,162
Other mortgage-backed securities	715	63		778
Other securities	8	1		9
Total securities available for sale	$ 15,490	$ 522		$ 16,012
HELD-TO-MATURITY SECURITIES				
Collateralized mortgage obligations	$ 2,091	$ 24		$ 2,115
Other securities	18			18
Total held-to-maturity securities	$ 2,109	$ 24		$ 2,133

	June 30, 2011			
in millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

SECURITIES AVAILABLE FOR SALE				
U.S. Treasury, agencies and corporations	$ 9			$ 9
States and political subdivisions	126	$ 3		129
Collateralized mortgage obligations	17,124	485		17,609
Other mortgage-backed securities	845	72		917
Other securities	13	3		16
Total securities available for sale	$ 18,117	$ 563		$ 18,680
HELD-TO-MATURITY SECURITIES				
States and political subdivisions	$ 1			$ 1
Other securities	18			18
Total held-to-maturity securities	$ 19			$ 19

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The following table summarizes our securities that were in an unrealized loss position as of June 30, 2012, December 31, 2011, and June 30, 2011.

	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	Fair Value	Gross Unrealized Losses
June 30, 2012						
Securities available for sale:						
Collateralized mortgage obligations	**$ 1**				**$ 1**	
Other securities	**12**	**$ 1**			**12**	**$ 1**
Held-to-maturity:						
Collateralized mortgage obligations	**200**				**200**	
Total temporarily impaired securities	**$ 213**	**$ 1**			**$ 213**	**$ 1**
December 31, 2011						
Securities available for sale:						
Collateralized mortgage obligations	$ 1				$ 1	
Other securities	3				3	
Total temporarily impaired securities	$ 4				$ 4	
June 30, 2011						
Securities available for sale:						
Collateralized mortgage obligations	$ 126				$ 126	
Total temporarily impaired securities	$ 126				$ 126	

We had $1 million of gross unrealized losses at June 30, 2012 that related to one fixed-rate CMO, which we had invested in as part of an overall A/LM strategy. Since this security has a fixed interest rate, its fair value is sensitive to movements in market interest rates. This unrealized loss is considered temporary since we expect to collect all contractually due amounts from this security. Accordingly, this investment has been reduced to its fair value through OCI, not earnings. This security had a weighted-average maturity of .2 years at June 30, 2012.

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

The debt securities identified to have OTTI are written down to their current fair value. For those debt securities that we intend to sell, or more-likely-than-not will be required to sell, prior to the expected recovery of the amortized cost, the entire impairment (i.e., the difference between amortized cost and the fair value) is recognized in earnings. For those debt securities that we do not intend to sell, or more-likely-than-not will not be required to sell, prior to expected recovery, the credit portion of OTTI is recognized in earnings, while the remaining OTTI is recognized in equity as a component of AOCI on the balance sheet. As shown in the following table, we did not have any impairment losses recognized in earnings for the three months ended June 30, 2012.

Three months ended June 30, 2012

in millions		
Balance at March 31, 2012	$	4
Impairment recognized in earnings		
Balance at June 30, 2012	$	4

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

Six months ended June 30, 2012

in millions

Realized gains	
Realized losses	
Net securities gains (losses)	

At June 30, 2012, securities available for sale and held-to-maturity securities totaling $10 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 are presented based on their expected average lives. The remaining securities, including all of those in the held-to-maturity portfolio, are presented based on their remaining contractual maturity. Actual maturities may differ from expected or contractual maturities since borrowers have the right to prepay obligations with or without prepayment penalties.

June 30, 2012	**Securities Available for Sale**		**Held-to-Maturity Securities**	
in millions	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 950	$ 966	$ 5	$ 5
Due after one through five years	11,748	12,163	4,347	4,391
Due after five through ten years	66	72		
Due after ten years	4	4		
Total	$ 12,768	$ 13,205	$ 4,352	$ 4,396

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7. Derivatives and Hedging Activities

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

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

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

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

At June 30, 2012, after taking into account the effects of bilateral collateral and master netting agreements, we had $183 million of derivative assets and a negative $61 million of derivative liabilities that relate to contracts entered into for hedging purposes. Our hedging derivative liabilities are in an asset position largely due to contracts with positive fair values as a result of master netting agreements. 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 $635 million and derivative liabilities of $824 million that were not designated as hedging instruments.

The Dodd-Frank Act, which is currently being implemented, may limit the types of derivative activities that KeyBank and other insured depository institutions may conduct. As a result, we may not continue to use all of the types of derivatives noted above in the future.

Additional information regarding our accounting policies for derivatives is provided in Note 1 (Summary of Significant Accounting Policies) under the heading Derivatives on page 121 of our 2011 Annual Report on 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 swaps are used primarily to modify our consolidated exposure to changes in interest rates. These contracts convert certain fixed-rate long-term debt into variable-rate obligations. As a result, we receive fixed-rate interest payments in exchange for making variable-rate payments over the lives of the contracts without exchanging the notional amounts.

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

We also use interest rate swaps to hedge the floating-rate debt that funds fixed-rate leases entered into by our Equipment Finance line of business. These swaps are designated as cash flow hedges to mitigate the interest rate mismatch between the fixed-rate lease cash flows and the floating-rate payments on the debt.

The derivatives used for managing foreign currency exchange risk are cross currency swaps. During 2011 and prior years, Key had outstanding issuances of medium-term notes that were denominated in foreign currencies. The notes were subject to translation risk, which represented the possibility that the fair value of the foreign-denominated debt would change based on movement of the underlying foreign currency spot rate. It has been our practice to hedge against potential fair value volatility caused by changes in foreign currency exchange rates and interest rates. The hedge converted the notes to a variable-rate U.S. currency-denominated debt, which was designated as a fair value hedge of foreign currency exchange risk. As of June 30, 2012, Key has no debt being hedged in this manner.

Derivatives Not Designated in Hedge Relationships

On occasion, we enter into interest rate swap contracts to manage economic risks but do not designate the instruments in hedge relationships. Excluding contracts addressing customer exposures, the amount of derivatives hedging risks on an economic basis at June 30, 2012, 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. This process entails the use of credit derivatives primarily credit default swaps. Credit default swaps enable us to transfer to a third party a portion of the credit risk associated with a particular extension of credit, and to manage portfolio concentration and correlation risks. Occasionally, we also provide credit protection to other lenders through the sale of credit default swaps. This objective is accomplished primarily through the use of an investment-grade diversified dealer-traded basket of credit default swaps. These transactions may generate fee income, and diversify and reduce overall portfolio credit risk volatility. 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 swap and options contracts entered into to accommodate the needs of clients;

¿ futures contracts and positions with third parties that are intended to offset or mitigate the interest rate or market risk related to client positions discussed above; and

¿ foreign exchange forward contracts and options entered into primarily to accommodate the needs of clients.

These contracts are not designated as part of hedge relationships.

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

The following table summarizes the fair values of our derivative instruments on a gross basis as of June 30, 2012, December 31, 2011, and June 30, 2011. The change in the notional amounts of these derivatives by type from December 31, 2011, to June 30, 2012, indicates the volume of our derivative transaction activity during the first half of 2012. The notional amounts are not affected by bilateral collateral and master netting agreements. Our derivative instruments are included in derivative assets or derivative liabilities on the balance sheet, as indicated in the following table:

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	June 30, 2012			December 31, 2011			June 30, 2011		
		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	**$ 15,903**	**$ 586**	**$ 32**	$ 15,067	$ 589	$ 27	$ 9,713	$ 459	$ 1
Foreign exchange	**431**	**2**	**8**	554		147	1,188		150
Total	**16,334**	**588**	**40**	15,621	589	174	10,901	459	151
Derivatives not designated as hedging instruments:									
Interest rate	**58,222**	**1,273**	**1,278**	48,537	1,364	1,371	46,355	1,149	1,180
Foreign exchange	**5,579**	**105**	**97**	5,549	151	141	6,001	178	169
Energy and commodity	**1,691**	**209**	**204**	1,610	253	253	1,896	295	303
Credit	**2,613**	**25**	**24**	3,210	37	62	2,934	34	31
Equity	**18**			17	3	3	32	4	4
Total	**68,123**	**1,612**	**1,603**	58,923	1,808	1,830	57,218	1,660	1,687
Netting adjustments [a]		**(1,382)**	**(880)**		(1,452)	(978)		(1,219)	(847)
Total derivatives	**$ 84,457**	**$ 818**	**$ 763**	$ 74,544	$ 945	$ 1,026	$ 68,119	$ 900	$ 991

(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. The net basis takes into account the impact of bilateral collateral and master netting agreements that allow us to settle all derivative contracts with a single counterparty on a net basis and to offset the net derivative position with the related collateral.

Fair value hedges. Instruments designated as fair value hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. The effective portion of a change in the fair value of an instrument designated as a fair value hedge is recorded in earnings at the same time as a change in fair value of the hedged item, resulting in no effect on net income. The ineffective portion of a change in the fair value of such a hedging instrument is recorded in other income on the income statement with no corresponding offset. During the six-month period ended June 30, 2012, we did not exclude any portion of these hedging instruments from the assessment of hedge effectiveness. While there is some ineffectiveness in our hedging relationships, all of our fair value hedges remained highly effective as of June 30, 2012.

The following table summarizes the pre-tax net gains (losses) on our fair value hedges for the six-month periods ended June 30, 2012 and 2011, and where they are recorded on the income statement.

	Six months ended June 30, 2012				
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	$ (13)	Long-term debt	Other income	$ 10 [a]
Interest rate	Interest expense Long-term debt	89			
Foreign exchange	Other income	5	Long-term debt	Other income	(6) [a]
Foreign exchange	Interest expense Long-term debt	1	Long-term debt	Interest expense Long-term debt	(1) [b]
Total		$ 82			$ 3

	Six months ended June 30, 2011				
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	$ (12)	Long-term debt	Other income	$ 8 [(a)]
Interest rate	Interest expense Long-term debt	112			
Foreign exchange	Other income	90	Long-term debt	Other income	(95) [(a)]
Foreign exchange	Interest expense Long-term debt	5	Long-term debt	Interest expense Long-term debt	(8) [(b)]
Total		$ 195			$ (95)

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

(b) Net gains (losses) on hedged items represent the change in fair value caused by fluctuations in foreign currency exchange rates.

Cash flow hedges. Instruments designated as cash flow hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a cash flow hedge is recorded as a component of AOCI on the balance sheet and is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we pay variable-rate interest on debt, receive variable-rate interest on commercial loans or sell commercial real estate loans). The ineffective portion of cash flow hedging transactions is included in other income on the income statement. During the six-month period ended June 30, 2012, we did not exclude any portion of these

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hedging instruments from the assessment of hedge effectiveness. While there is some ineffectiveness in our hedging relationships, all of our cash flow hedges remained highly effective as of June 30, 2012.

Net Investment Hedges. In May 2012, we entered into foreign currency forward contracts to hedge our exposure to changes in the carrying value of our investments as a result of changes in the related foreign exchange rates. Instruments designated as net investment hedges are recorded at fair value and included in derivative assets or derivative liabilities on the balance sheet. Initially, the effective portion of a gain or loss on a net investment hedge is recorded as a component of AOCI on the balance sheet when the terms of the derivative match the notional and currency risk being hedged. The effective portion is subsequently reclassified into income when the hedged transaction affects earnings (e.g., when we dispose of a foreign subsidiary). At June 30, 2012, AOCI reflected unrecognized after-tax losses totaling $6 million related to cumulative changes in the fair value of our net investment hedge, which offset the unrecognized after-tax gains on net investment balances. The ineffective portion of net investment hedging transactions is included in other income on the income statement. However, there was no net investment hedge ineffectiveness as of June 30, 2012. We did not exclude any portion of our hedging instruments from the assessment of hedge effectiveness while these hedges were outstanding during the second quarter of 2012.

The following table summarizes the pre-tax net gains (losses) on our cash flow and net investment hedges for the six-month periods ended June 30, 2012 and 2011, and where they are recorded on the income statement. The table includes the effective portion of net gains (losses) recognized in OCI during the period, the effective portion of net gains (losses) reclassified from OCI into income during the current period, and the portion of net gains (losses) recognized directly in income, representing the amount of hedge ineffectiveness.

	Six months ended June 30, 2012				
in millions	**Net Gains (Losses) Recognized in OCI (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Net Gains (Losses) Reclassified From OCI Into Income (Effective Portion)**	**Income Statement Location of Net Gains (Losses) Recognized in Income (Ineffective Portion)**	**Net Gains (Losses) Recognized in Income (Ineffective Portion)**
Cash Flow Hedges					
Interest rate	**$ 50**	Interest income Loans	**$ 29**	Other income	
Interest rate	**(7)**	Interest expense Long-term debt	**(5)**	Other income	
Interest rate		Net gains (losses) from loan sales		Other income	
Net Investment Hedges					
Foreign exchange contracts	**(6)**	Other Income		Other income	
Total	**$ 37**		**$ 24**		

	Six months ended June 30, 2011				
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)**
Interest rate	$ 42	Interest income Loans	$ 27	Other income	
Interest rate	(9)	Interest expense Long-term debt	(5)	Other income	
Interest rate		Net gains (losses) from loan sales		Other income	
Total	$ 33		$ 22		

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

in millions	December 31, 2011	2012 Hedging Activity	Reclassification of Gains to Net Income	June 30, 2012
AOCI resulting from cash flow and net investment hedges	$ (2)	**$ 23**	**$ (15)**	**$ 6**

Considering the interest rates, yield curves, and notional amounts as of June 30, 2012, we would expect to reclassify an estimated $5 million of net losses on derivative instruments from AOCI to income during the next twelve months. In addition, we expect to reclassify approximately $11 million of net gains related to terminated cash flow hedges from AOCI to income during the next twelve months. The maximum length of time over which we hedge forecasted transactions is 17 years.

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 investment banking and capital markets income (loss) on the income statement.

The following table summarizes the pre-tax net gains (losses) on our derivatives that are not designated as hedging instruments for the six-month periods ended June 30, 2012 and 2011, and where they are recorded on the income statement.

in millions	Six months ended June 30, 2012	2011
NET GAINS (LOSSES) [(a)]		
Interest rate	**$ 10**	$ 6
Foreign exchange	**19**	20
Energy and commodity	**6**	2
Credit	**(9)**	(10)
Total net gains (losses)	**$ 26**	$ 18

(a) Recorded in investment banking and capital markets income (loss) on the income statement.

Counterparty Credit Risk

Like other financial instruments, derivatives contain an element of credit risk. This risk is measured as the expected positive replacement value of the contracts. We use several means to mitigate and manage exposure to credit risk on derivative contracts. We generally enter into bilateral collateral and master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. Additionally, we monitor counterparty credit risk exposure on each contract to determine appropriate limits on our total credit exposure across all product types. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with ISDA and other related agreements. We generally hold collateral in the form of cash and highly rated securities issued by the U.S. Treasury, government-sponsored enterprises or GNMA. The collateral netted against derivative assets on the balance sheet totaled $513 million at June 30, 2012, $486 million at December 31, 2011, and $354 million at June 30, 2011. The collateral netted against derivative liabilities totaled $11 million at June 30, 2012, $11 million at December 31, 2011 and $19 million at June 30, 2011.

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

in millions	June 30, 2012	December 31, 2011	June 30, 2011
Largest gross exposure (derivative asset) to an individual counterparty	**$ 196**	$ 194	$ 147
Collateral posted by this counterparty	**70**	64	33
Derivative liability with this counterparty	**217**	250	250
Collateral pledged to this counterparty	**93**	127	137
Net exposure after netting adjustments and collateral	**2**	7	2

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

in millions	December 31,	June 30,

	June 30, 2012	2011	2011
Interest rate	**$ 1,221**	$ 1,257	$ 1,026
Foreign exchange	**22**	64	110
Energy and commodity	**82**	96	105
Credit	**6**	12	10
Equity		2	3
Derivative assets before collateral	**1,331**	1,431	1,254
Less: Related collateral	**513**	486	354
Total derivative assets	**$ 818**	$ 945	$ 900

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

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counterparties. At June 30, 2012, for derivatives that have associated bilateral collateral and master netting agreements, we had gross exposure of $1 billion to broker-dealers and banks. We had net exposure of $244 million after the application of master netting agreements and collateral; our net exposure to broker-dealers and banks at June 30, 2012, was reduced to $13 million with $231 million of additional collateral held in the form of securities.

We enter into transactions with clients to accommodate their business needs. These types of transactions generally are low dollar volume. We generally enter into master netting agreements with these counterparties. In addition, we mitigate our overall portfolio exposure and market risk by buying and selling U.S. Treasuries and Eurodollar futures, and entering into offsetting positions and other derivative contracts. Due to the smaller size and magnitude of the individual contracts with clients, collateral generally is not exchanged in connection with these derivative transactions. To address the risk of default associated with the uncollateralized contracts, we have established a default reserve (included in derivative assets) in the amount of $24 million at June 30, 2012, which we estimate to be the potential future losses on amounts due from client counterparties in the event of default. At December 31, 2011, the default reserve was $22 million. At June 30, 2012, for derivatives that have associated master netting agreements, we had gross exposure of $625 million to client counterparties. We had net exposure of $574 million on our derivatives with clients after the application of master netting agreements, collateral and the related reserve.

Credit Derivatives

We are both a buyer and seller of credit protection through the credit derivative market. We purchase credit derivatives to manage the credit risk associated with specific commercial lending and swap obligations. We also sell credit derivatives, mainly index credit default swaps, to diversify the concentration risk within our loan portfolio.

The following table summarizes the fair value of our credit derivatives purchased and sold by type. The fair value of credit derivatives presented below does not take into account the effects of bilateral collateral or master netting agreements.

	June 30, 2012			**December 31, 2011**			**June 30, 2011**		
in millions	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**	**Purchased**	**Sold**	**Net**
Single name credit default swaps	**$ (4)**	**$ 1**	**$ (3)**	$ 3	$ (1)	$ 2	$ (10)	$ 9	$ (1)
Traded credit default swap indices		**3**	**3**	6	(6)			2	2
Other	**1**	**(1)**		1	(1)		3		3
Total credit derivatives	**$ (3)**	**$ 3**	**$**	$ 10	$ (8)	$ 2	$ (7)	$ 11	$ 4

Single name credit default swaps are bilateral contracts whereby the seller agrees, for a premium, to provide protection against the credit risk of a specific entity (the reference entity) in connection with a specific debt obligation. The protected credit risk is related to adverse credit events, such as bankruptcy, failure to make payments, and acceleration or restructuring of obligations, identified in the credit derivative contract. As the seller of a single name credit derivative, we would be required to pay the purchaser the difference between the par value and the market price of the debt obligation (cash settlement) or receive the specified referenced asset in exchange for payment of the par value (physical settlement) if the underlying reference entity experiences a predefined credit event. For a single name credit derivative, the notional amount represents the maximum amount that a seller could be required to pay. If we effect a physical settlement and receive our portion of the related debt obligation, we will join other creditors in the liquidation process, which may enable us to recover a portion of the amount paid under the credit default swap contract. We also may purchase offsetting credit derivatives for the same reference entity from third parties that will permit us to recover the amount we pay should a credit event occur.

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

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. The notional amount represents the maximum amount that the seller could be required to pay. If the customer defaults on the swap contract and the seller fulfills its payment obligations under the risk participation agreement, the seller is entitled to a pro rata share of the lead participant s claims against the customer under the terms of the swap agreement.

The following table provides information on the types of credit derivatives sold by us and held on the balance sheet at June 30, 2012, December 31, 2011, and June 30, 2011. The payment/performance risk assessment is based on the default probabilities for the underlying reference entities debt obligations using a Moody s credit ratings matrix known as Moody s Idealized Cumulative Default Rates. The payment/performance risk shown in the table represents a weighted-average of the default probabilities for all reference entities in the respective portfolios. These default probabilities are directly correlated to the probability that we will have to make a payment under the credit derivative contracts.

	June 30, 2012			December 31, 2011			June 30, 2011		
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	**$ 550**	**2.42**	**4.40 %**	$ 878	2.18	4.98 %	$ 844	2.40	4.45 %
Traded credit default swap indices	**478**	**2.76**	**1.87**	343	3.20	4.58	318	3.88	3.47
Other	**23**	**5.48**	**9.74**	18	5.74	10.89	17	5.56	9.04
Total credit derivatives sold	**$ 1,051**			$ 1,239			$ 1,179		

Credit Risk Contingent Features

We have entered into certain derivative contracts that require us to post collateral to the counterparties when these contracts are in a net liability position. The amount of collateral to be posted is based on the amount of the net liability and thresholds generally related to our long-term senior unsecured credit ratings with Moody s and S&P. Collateral requirements also are based on minimum transfer amounts, which are specific to each Credit Support Annex (a component of the ISDA Master Agreement) that we have signed with the counterparties. In a limited number of instances, counterparties also have the right to terminate their ISDA Master Agreements with us if our ratings fall below a certain level, usually investment-grade level (i.e., Baa3 for Moody s and BBB- for S&P). At June 30, 2012, KeyBank s ratings with Moody s and S&P were A3 and respectively, and KeyCorp s ratings with Moody s and S&P were Baa1 and BBB+, respectively. If there were a downgrade of our ratings, we could be required to post additional collateral under those ISDA Master Agreements where we are in a net liability position. As of June 30, 2012, 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 $589 million, which includes $542 million in derivative assets and $1.1 billion in derivative liabilities. We had $537 million in cash and securities collateral posted to cover those positions as of June 30, 2012. The aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our ratings) as of June 30, 2012, held by KeyCorp that were in a net liability position totaled $29 million, which is comprised solely of $29 million in derivative liabilities. We had $29 million in cash and securities collateral posted to cover those positions as of June 30, 2012.

The following table summarizes the additional cash and securities collateral that KeyBank would have been required to deliver had the credit risk contingent features been triggered for the derivative contracts in a net liability position as of June 30, 2012, December 31, 2011, and June 30, 2011. The additional collateral amounts were calculated based on scenarios under which KeyBank s ratings are downgraded one, two or three ratings as of June 30, 2012, and take into account all collateral already posted. A similar calculation was performed for KeyCorp and additional collateral of $3 million would have been required as of June 30, 2012. No additional collateral was required in prior periods.

	June 30, 2012		December 31, 2011		June 30, 2011	
in millions	Moody s	S&P	Moody s	S&P	Moody s	S&P

KeyBank s long-term senior unsecured credit ratings	**A3**	**A-**	A3	A-	A3	A-
One rating downgrade	$ **6**	$ **6**	$ 11	$ 11	$ 11	$ 11
Two rating downgrades	**11**	**11**	16	16	16	16
Three rating downgrades	**17**	**17**	16	16	16	16

KeyBank s long-term senior unsecured credit rating currently is four ratings above noninvestment grade at Moody s and S&P. If KeyBank s ratings had been downgraded below investment grade as of June 30, 2012, payments of up to $18 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted. If KeyCorp s ratings had been downgraded below investment grade as of June 30, 2012, payments of up to $3 million would have been required to either terminate the contracts or post additional collateral for those contracts in a net liability position, taking into account all collateral already posted.

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8. Mortgage Servicing Assets

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

in millions	Six months ended June 30, 2012	2011
Balance at beginning of period	**$ 173**	$ 196
Servicing retained from loan sales	**20**	11
Purchases	**24**	2
Amortization	**(29)**	(29)
Impairments	**(2)**	
Balance at end of period	**$ 186**	$ 180
Fair value at end of period	**$ 237**	$ 247

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 primary economic assumptions used to measure the fair value of our mortgage servicing assets at June 30, 2012, and 2011, generally are:

¿ prepayment speed at an annual rate of 0.00% to 25.00%;

¿ expected credit losses at a static rate of 1.00% to 3.00%;

¿ residual cash flows discount rate of 7.00% to 15.00%; and

¿ value assigned to escrow funds at an interest rate of .50% to 3.75%.

If these economic assumptions change or prove incorrect, the fair value of mortgage servicing assets may as a result change in the future. The volume of loans serviced, expected credit losses, and the value assigned to escrow deposits are critical to the valuation of servicing assets. At June 30, 2012, a 1.00% decrease in the value assigned to the escrow deposits would cause a $36 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 $7 million decrease in the fair value of our mortgage servicing assets.

Contractual fee income from servicing commercial mortgage loans totaled $45 million for the six-month period ended June 30, 2012 and $48 million for the six-month period ended June 30, 2011. We have elected to account for servicing assets using the amortization method. The amortization of servicing assets is determined in proportion to, and over the period of, the estimated net servicing income. The amortization of servicing assets for each period, as shown in the preceding table, is recorded as a reduction to fee income. Both the contractual fee income and the amortization are recorded in other income on the income statement.

Subsequent to its January 19, 2011, publicly issued announcement, Moody s, a credit rating agency that rates KeyCorp and KeyBank debt securities, indicated to KeyBank that certain escrow deposits associated with our mortgage servicing operations had to be moved to another financial institution that meets Moody s minimum ratings threshold. As a result of this decision by Moody s, during the first quarter of 2011, KeyBank transferred approximately $1.5 billion of these escrow deposit balances to an acceptably-rated institution resulting in an immaterial impairment of the related mortgage servicing assets. We funded this movement of the escrow deposits by selling a similar amount of securities available for sale at the time of the transfer. KeyBank had ample liquidity reserves to offset the loss of these deposits.

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 119 of our 2011 Annual Report on Form 10-K and Note 11 (Acquisition and Discontinued Operations) under the heading Education lending in this report.

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9. Variable Interest Entities

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

¿ The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.

¿ The entity s investors lack the power to direct the activities that most significantly impact the entity s economic performance.

¿ The entity s equity at risk holders do not have the obligation to absorb losses or the right to receive residual returns.

¿ The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity s activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

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

	Consolidated VIEs		Unconsolidated VIEs		
in millions	**Total Assets**	**Total Liabilities**	**Total Assets**	**Total Liabilities**	**Maximum Exposure to Loss**
June 30, 2012					
LIHTC funds	$ 91	84	$ 119		
Education loan securitization trusts	2,611	$ 2,401	N/A	N/A	N/A
LIHTC investments	N/A	N/A	1,012		$ 494

Our involvement with VIEs is described below.

Consolidated VIEs

LIHTC guaranteed funds. KAHC formed limited partnerships, known as funds, that invested in LIHTC operating partnerships. Interests in these funds were offered in syndication to qualified investors who paid a fee to KAHC for a guaranteed return. We also earned syndication fees from the funds and continue to earn asset management fees. The funds assets primarily are investments in LIHTC operating partnerships, which totaled $52 million at June 30, 2012. These investments are recorded in accrued income and other assets on the balance sheet and serve as collateral for the funds limited obligations.

We have not formed new funds or added LIHTC partnerships since October 2003. However, we continue to act as asset manager and to provide occasional funding for existing funds under a guarantee obligation. As a result of this guarantee obligation, we have determined that we are the primary beneficiary of these funds. Additional information on return guarantee agreements with LIHTC investors is presented in Note 12 (Contingent Liabilities and Guarantees) under the heading Guarantees.

In accordance with the applicable accounting guidance for distinguishing liabilities from equity, third-party interests associated with our LIHTC guaranteed funds are considered mandatorily redeemable instruments and are recorded in accrued expense and other liabilities on the balance sheet. However, the FASB has indefinitely deferred the measurement and recognition provisions of this accounting guidance for mandatorily redeemable third-party interests associated with finite-lived subsidiaries, such as our LIHTC guaranteed funds. We adjust our financial statements each period for the third-party investors share of the funds profits and losses. At June 30, 2012, we estimated the settlement value of these third-party interests to be between $12 million and $21 million, while the recorded value, including reserves, totaled $84 million. The partnership agreement for each of our guaranteed funds requires the fund to be dissolved by a certain date.

Education loan securitization trusts. In September 2009, we decided to exit the government-guaranteed education lending business. Therefore, we have accounted for this business as a discontinued operation. In the past, as part of our education lending business model, we originated and securitized education loans. As the transferor, we retained a portion of the risk in the form of a residual interest and also retained the right to service the securitized loans and receive servicing fees. We have not securitized any education loans since 2006.

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We consolidated our ten outstanding education loan securitization trusts as of January 1, 2010, and made a corresponding $45 million cumulative effect adjustment. We were required to consolidate these trusts because we hold the residual interests and, as the master servicer we have the power to direct the activities that most significantly influence the trusts economic performance. We elected to consolidate these trusts at fair value. The trust assets can be used only to settle the obligations or securities that the trusts issue; we cannot sell the assets or transfer the liabilities. The security holders or beneficial interest holders do not have recourse to us, and we do not have any liability recorded related to their securities. During the third quarter of 2011, we determined that the $45 million adjustment was incorrect. Further information regarding this error and how we corrected it as well as additional information about these education loan securitization trusts is generally provided in Note 11 (Acquisition and Discontinued Operations) under the heading Education lending.

Unconsolidated VIEs

LIHTC nonguaranteed funds. Although we hold significant interests in certain nonguaranteed funds that we formed and funded, we have determined that we are not the primary beneficiary because we do not absorb the majority of the funds expected losses and do not have the power to direct activities that most significantly influence the economic performance of these entities. At June 30, 2012, assets of these unconsolidated nonguaranteed funds totaled $119 million. Our maximum exposure to loss in connection with these funds is minimal, and we do not have any liability recorded related to the funds. We have not formed nonguaranteed funds since October 2003.

LIHTC investments. Through Key Community Bank, we have made investments directly in LIHTC operating partnerships formed by third parties. As a limited partner in these operating partnerships, we are allocated tax credits and deductions associated with the underlying properties. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly influence the economic performance of their respective partnerships and have the obligation to absorb expected losses and the right to receive benefits.

At June 30, 2012, assets of these unconsolidated LIHTC operating partnerships totaled approximately $1 billion. At June 30, 2012, our maximum exposure to loss in connection with these partnerships is the unamortized investment balance of $399 million plus $95 million of tax credits claimed but subject to recapture. We do not have any liability recorded related to these investments because we believe the likelihood of any loss is remote. During the first six months of 2012, we did not obtain significant direct investments (either individually or in the aggregate) in LIHTC operating partnerships.

We have additional investments in unconsolidated LIHTC operating partnerships that are held by the consolidated LIHTC guaranteed funds. Total assets of these operating partnerships were approximately $987 million at June 30, 2012. 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 12 under the heading Return guarantee agreement with LIHTC investors.

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

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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. Additionally, the accounting guidance allows for an alternative method to computing the effective tax rate and, thus the interim provision for income taxes, when a taxpayer is unable to calculate a reliable estimate of the effective tax rate for the entire year. For the second quarter of 2012, we applied an estimated annual effective rate to the interim period s consolidated pre-tax operating income. For the interim periods during 2011, we applied the alternative method allowed under the accounting guidance. The provision for the quarters during 2011 was calculated by applying the statutory federal income tax rate to the quarter s consolidated operating income before taxes after modifications. These items included modifications for nontaxable items recognized in the quarter, which were comprised of income from corporate-owned life insurance, tax credits related to investments in low-income housing projects, and state taxes. During those periods, we concluded that the uncertainty of the economic environment made the alternative method more reliable in determining the tax provision for those periods.

The effective tax rate, which is the provision for income taxes as a percentage of income from continuing operations before income taxes, was 19.8% for the second quarter of 2012, 27.0% for the first quarter of 2012, and 27.1% for the second quarter of 2011. The effective tax rates are below our combined federal and state statutory tax rate of 37.2%, due primarily to income from investments in tax-advantaged assets such as corporate-owned life insurance and credits associated with investments in low-income housing projects. In addition, during the second quarter and the first six months of 2012, our effective tax rate was lower due to the early termination of certain leveraged leases that resulted in nontaxable gains pursuant to a prior settlement with the IRS.

Deferred Tax Asset

At June 30, 2012, from continuing operations, we had a federal deferred tax asset of $119 million and a state deferred tax liability of $22 million compared to a federal deferred tax asset of $111 million and a state deferred tax liability of $19 million at December 31, 2011, and a combined federal and state deferred tax asset of $208 million at June 30, 2011, 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. Based on these criteria, and in particular our expectations for future taxable income, we currently believe that it is more-likely-than-not that we will realize the net deferred tax asset in future periods.

Unrecognized Tax Benefits

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

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11. Acquisition and Discontinued Operations

Acquisition

HSBC Branches. As previously reported, in January 2012, Key signed a purchase and assumption agreement to acquire 37 retail banking branches in Buffalo and Rochester, New York, owned by HSBC Bank NA (HSBC). On July 13, 2012, KeyBank completed this acquisition. The acquisition, which adds approximately $2.1 billion in deposits, approximately $260 million in loans, and approximately $70 million in credit card receivables in September of 2012, strengthens Key s ability to provide exceptional service to consumer, business banking, and wealth management clients in these markets while growing our presence and acquiring new customers.

Under the terms of the transaction, KeyBank paid a 4.4% premium on deposits, or approximately $95 million. The assumed deposits consist primarily of transaction and savings accounts and the purchased loans consist of in-market performing loans, primarily residential real estate loans.

Discontinued operations

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

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

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

	Three months ended June 30,		Six months ended June 30,	
in millions	**2012**	2011	**2012**	2011
Net interest income	**$ 30**	$ 35	**$ 61**	$ 71
Provision for loan and lease losses	**2**	30	**6**	62
Net interest income (expense) after provision for loan and lease losses	**28**	5	**55**	9
Noninterest income	**(2)**	(11)	**(20)**	(21)
Noninterest expense	**9**	9	**18**	20
Income (loss) before income taxes	**17**	(15)	**17**	(32)
Income taxes	**6**	(6)	**6**	(12)
Income (loss) from discontinued operations, net of taxes [(a)]	**$ 11**	$ (9)	**$ 11**	$ (20)

(a) Includes after-tax charges of $12 million and $12 million for the three-month periods ended June 30, 2012 and 2011, respectively, and $26 million and $25 million for the six-month periods ended June 30, 2012 and June 30, 2011, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

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

in millions		June 30, 2012		December 31, 2011		June 30, 2011
Trust loans at fair value	**$**	**2,580**	$	2,726	$	3,100
Portfolio loans at fair value		**73**		76		
Loans, net of unearned income of ($2), ($2) and $1		**2,830**		3,010		3,161
Less: Allowance for loan and lease losses		**79**		104		109
Net loans		**5,404**		5,708		6,152
Trust accrued income and other assets at fair value		**31**		34		34
Accrued income and other assets		**76**		87		110
Total assets	**$**	**5,511**	$	5,829	$	6,296
Trust accrued expense and other liabilities at fair value	**$**	**28**	$	28	$	30
Trust securities at fair value		**2,373**		2,522		2,919
Total liabilities	**$**	**2,401**	$	2,550	$	2,949

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

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

The trust assets can be used only to settle the obligations or securities the trusts issue; we cannot sell the assets or transfer the liabilities. The loans in the consolidated trusts consist of both private and government-guaranteed loans. The security holders or beneficial interest holders do not have recourse to Key. Our economic interest or risk of loss associated with these education loan securitization trusts is approximately $210 million as of June 30, 2012. We record all income and expense (including fair value adjustments) through the income (loss) from discontinued operations, net of tax line item in our income statement.

We elected to consolidate these trusts at fair value. Carrying the assets and liabilities of the trusts at fair value better depicts our economic interest. The fair value of the assets and liabilities of the trusts is determined by calculating the present value of the future expected cash flows. We rely on unobservable inputs (Level 3) when determining the fair value of the assets and liabilities of the trusts because observable market data is not available. See further discussion regarding our valuation process later in this note.

A cumulative effect adjustment of approximately $45 million, which increased our beginning balance of retained earnings at January 1, 2010, was recorded when the trusts were consolidated. The amount of this cumulative effect adjustment was driven primarily by derecognizing the residual interests and servicing assets related to these trusts and consolidating the assets and liabilities at fair value.

During the third quarter of 2011, we corrected an error related to the $45 million cumulative effect adjustment recorded to beginning retained earnings upon consolidation of the education loan securitization trusts on January 1, 2010. Deferred taxes had not been appropriately recognized for the assets and liabilities of the trusts consolidated which were accounted for at fair value for book purposes but not for tax. We assessed the materiality of the error in accordance with the applicable SEC guidance and concluded that the error was not material, individually or in the aggregate, to our financial position for any prior period or the quarter ending September 30, 2011, to trends for those periods affected, or to a fair presentation of our financial statements for those periods. The error had no impact on our results of operations. Accordingly, results for periods prior to the quarter ending September 30, 2011 were not restated. Instead, accrued income and other assets and retained earnings were reduced by $30 million to correct this error in the third quarter of 2011.

On September 27, 2011, we purchased the government-guaranteed 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 these government-guaranteed loans. This particular trust remains in existence and continues to maintain the private education loan portfolio and has securities related to these loans outstanding. The government-guaranteed loans we purchased are held as portfolio loans and continue to be accounted for at fair value. The portfolio loans were valued using an internal discounted cash flow model, 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. See following discussion regarding our valuation process for these loans as well as the trust loans and securities.

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

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

The valuation process for the education loan securitization trust and portfolio loans that are accounted for at fair value is based on a discounted cash flow analysis using a model purchased from a third party that is maintained by Corporate Treasury. The market for student loans, either whole-loan purchases or securitization, is relatively illiquid and has not recovered from the effects of the financial crisis. 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, etc.). Cash flows for these loan pools are developed using a financial model that reflects certain assumptions for defaults, recoveries, status change and prepayments.

A net earnings stream, taking into account cost of funding, is calculated and discounted back to the measurement date using an appropriate discount rate. This resulting amount is used to determine the present value of the loans which represents their fair value to a market participant.

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

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

A quarterly variance analysis reconciles valuation changes in the model used to calculate the fair value of the trust loans and securities and the portfolio loans at fair value. This quarterly analysis considers loan and securities runoff, yields, future default and recovery changes, and the timing of cash releases to us from the trusts. Back testing for expected defaults to actual experience is also performed as the impact of future defaults has a significant impact on the fair value of these loans and securities over time. In addition, our internal model risk review group periodically performs a review to ensure the accuracy and validity of the model for determining the fair value of these loans and securities.

At June 30, 2012, 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 are shown in the following table:

June 30, 2012 *dollars in millions*	**Fair Value of Level 3 Assets and Liabilities**	**Valuation Technique**	**Significant Unobservable Input**	**Range (Weighted-Average)**
Trust loans and portfolio loans accounted for at fair value	$ 2,653	Discounted cash flow	Prepayment speed	4.00 - 26.00% (10.22%)
			Expected credit losses	2.00 - 80.00% (52.34%)
			Discount rate	3.00 - 8.10% (5.30%)
			Expected defaults	8.00 - 20.64% (12.40%)
Trust securities	2,373	Discounted cash flow	Discount rate	2.10 - 6.90% (4.80%)

The following table shows the consolidated trusts assets and liabilities at fair value and the portfolio loans at fair value and their related contractual values as of June 30, 2012. At June 30, 2012, loans held by the trusts with unpaid principal balances of $39 million ($37 million on a fair value basis) and portfolio loans at fair value with unpaid principal balances of $2 million ($2 million on a fair value basis) were 90 days or more past due. Loans held by the trusts aggregating $16 million ($15 million on a fair value basis) were in nonaccrual status, while portfolio loans at fair value in nonaccrual status aggregated to less than $1 million on both a contractual amount and fair value basis.

June 30, 2012 *in millions*	**Contractual Amount**	**Fair Value**
ASSETS		
Portfolio loans	$ 70	$ 73
Trust loans	2,712	2,580
Trust other assets	31	31
LIABILITIES		
Trust securities	$ 2,772	$ 2,373
Trust other liabilities	28	28

The following table presents the assets and liabilities of the trusts that were consolidated and are measured at fair value, as well as the portfolio loans that are measured at fair value on a recurring basis.

June 30, 2012 *in millions*	**Level 1**	**Level 2**	**Level 3**	**Total**
ASSETS MEASURED ON A RECURRING BASIS				
Portfolio loans			$ 73	$ 73
Trust loans			2,580	2,580
Trust other assets			31	31
Total assets on a recurring basis at fair value			$ 2,684	$ 2,684
LIABILITIES MEASURED ON A RECURRING BASIS				
Trust securities			$ 2,373	$ 2,373

Trust other liabilities	28	28
Total liabilities on a recurring basis at fair value	$ 2,401	$ 2,401

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The following table shows the change in the fair values of the Level 3 consolidated education loan securitization trusts for the six-month period ended June 30, 2012.

in millions	Portfolio Student Loans	Trust Student Loans	Trust Other Assets	Trust Securities	Trust Other Liabilities
Balance at January 1, 2012	$ 76	$ 2,726	$ 34	$ 2,522	$ 28
Gains (losses) recognized in earnings [(a)]	(1)	39		59	
Purchases					
Sales					
Issuances					
Settlements	(2)	(185)	(3)	(208)	
Balance at June 30, 2012	$ 73	$ 2,580	$ 31	$ 2,373	$ 28

(a) Gains (losses) on the Trust Student Loans and Trust Securities were driven primarily by fair value adjustments.

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:

in millions	**Three months ended June 30, 2012**	**Three months ended June 30, 2011**	**Six months ended June 30, 2012**	**Six months ended June 30, 2011**
Noninterest income				$ 1
Noninterest expense	**$ 1**		**$ 9**	1
Income (loss) before income taxes	**(1)**		**(9)**	
Income taxes			**(3)**	
Income (loss) from discontinued operations, net of taxes	**$ (1)**		**$ (6)**	

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

in millions	**June 30,**	**December 31,**	**June 30,**

	2012	2011	2011
Cash and due from banks	**$ 22**	$ 31	$ 32
Total assets	**$ 22**	$ 31	$ 32
Accrued expense and other liabilities			$ 1
Total liabilities			$ 1

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

in millions	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Net interest income	**$ 30**	$ 35	**$ 61**	$ 71
Provision for loan and lease losses	**2**	30	**6**	62
Net interest income (expense) after provision for loan and lease losses	**28**	5	**55**	9
Noninterest income	**(2)**	(11)	**(20)**	(20)
Noninterest expense	**10**	9	**27**	21
Income (loss) before income taxes	**16**	(15)	**8**	(32)
Income taxes	**6**	(6)	**3**	(12)
Income (loss) from discontinued operations, net of taxes [a]	**$ 10**	$ (9)	**$ 5**	$ (20)

(a) Includes after-tax charges of $12 million and $12 million for the three-month periods ended June 30, 2012 and 2011, respectively, and $26 million and $25 million for the six-month periods ended June 30, 2012 and 2011, respectively, determined by applying a matched funds transfer pricing methodology to the liabilities assumed necessary to support the discontinued operations.

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

in millions	June 30, 2012	December 31, 2011	June 30, 2011
Cash and due from banks	**$ 22**	$ 31	$ 32
Trust loans at fair value	**2,580**	2,726	3,100
Portfolio loans at fair value	**73**	76	
Loans, net of unearned income of ($2), ($2) and $1	**2,830**	3,010	3,161
Less: Allowance for loan and lease losses	**79**	104	109
Net loans	**5,404**	5,708	6,152
Trust accrued income and other assets at fair value	**31**	34	34
Accrued income and other assets	**76**	87	110
Total assets	**$ 5,533**	$ 5,860	$ 6,328
Trust accrued expense and other liabilities at fair value	**$ 28**	$ 28	$ 31
Trust securities at fair value	**2,373**	2,522	2,919
Total liabilities	**$ 2,401**	$ 2,550	$ 2,950

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12. Contingent Liabilities and Guarantees

Legal Proceedings

The following provides information on material developments in our legal proceedings during the quarter. Additional information on our legal proceedings is available in our 2011 Annual Report on Form 10-K, Note 16 (Commitments, Contingent Liabilities and Guarantees) under the heading Legal Proceedings on pages 175-177, and in our Form 10-Q for the period ended March 31, 2012, Note 12 (Contingent Liabilities and Guarantees) under the heading Legal Proceedings on page 60.

Austin Related Claims.

Acquisition-related claim. KeyCorp was named as a defendant in an action filed in June 2011 by the former owners of Austin in the United States District Court for the Northern District of Ohio. This acquisition-related lawsuit concerned an alleged breach of contract by KeyCorp under the purchase and sale agreement between the plaintiffs and KeyCorp, which related to our original purchase of Austin. The parties settled and, on April 30, 2012, the court entered a stipulation of dismissal of the litigation. The settlement amount was immaterial and paid out of existing reserves.

Monday litigation. As previously reported, KeyCorp and certain current and former directors and officers were named as defendants in the shareholder derivative lawsuit captioned *Warren Monday, et al., v. Henry L. Meyer III, et al.* (Monday), filed in the United States District Court for the Northern District of Ohio. As previously reported, plaintiffs filed a notice of appeal after the court dismissed the lawsuit in late 2011. While the matter was pending on appeal, the parties agreed to a settlement, subject to the approval of the court. On June 20, 2012, the court entered an order preliminarily approving the settlement and providing for notice to shareholders. The Notice of Proposed Settlement in Monday v. Meyer Shareholder Derivative Action, which sets forth the terms of the proposed settlement, is available at www.key.com/ir by clicking on corporate governance. A fairness hearing is scheduled for August 6, 2012.

Taylor and Metyk litigation. As previously reported, KeyCorp and certain of its directors and employees were named as defendants in two putative class actions filed in Ohio federal court styled *Taylor v. KeyCorp, et al.*, and *Wildes v. KeyCorp, et al.* The plaintiffs in these cases sought to represent a class of all participants in our 401(k) Savings Plan and alleged that the defendants in the lawsuit breached fiduciary duties owed to them under ERISA. These cases were substantively consolidated with each other and proceeded styled *Taylor v. KeyCorp, et al.* (Taylor). Plaintiffs consolidated complaint continued to name certain employees as defendants but no longer named any outside directors. On May 25, 2012, the federal court of appeals affirmed the trial court s decision dismissing Taylor for lack of standing. The court of appeals did not address Key s cross-appeal.

Following the trial court s dismissal of Taylor on August 12, 2010, two putative class actions with similar allegations and causes of action were filed, on September 21, 2010, in Ohio federal court. These two putative class action lawsuits were substantively consolidated with each other and are proceeding styled *Thomas Metyk, et al. v. KeyCorp, et al.* (Metyk). Metyk had been stayed due to the pendency of the appeals in Taylor. On June 25, 2012, the court lifted the stay. We strongly disagree with the allegations asserted against us and intend to vigorously defend against them.

Other litigation. In the ordinary course of business, we are subject to various other litigation, investigations and administrative proceedings. These other matters may involve claims for substantial monetary relief. Due to the complex nature of these various other matters, it may be years before some matters are resolved. While it is impossible to ascertain the ultimate resolution or range of financial liability, based on information presently known to us, we do not believe there is any other matter to which we are a party, or involving any of our properties that, individually or in the aggregate, would reasonably be expected to have a material adverse effect on our financial condition. We note, however, that in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter, or a combination of matters, may be material to our results of operation for a particular period, depending upon the size of the loss or our income for that particular period.

Guarantees

We are a guarantor in various agreements with third parties. The following table shows the types of guarantees that we had outstanding at June 30, 2012. Information pertaining to the basis for determining the liabilities recorded in connection with these guarantees is included in Note 1 (Summary of Significant Accounting Policies) under the heading Guarantees on page 177 of our 2011 Annual Report on Form 10-K.

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June 30, 2012 *in millions*	Maximum Potential Undiscounted Future Payments	Liability Recorded
Financial guarantees:		
Standby letters of credit	$ 10,137	$ 52
Recourse agreement with FNMA	973	9
Return guarantee agreement with LIHTC investors	55	55
Written put options [(a)]	1,993	60
Default guarantees	3	1
Total	$ 13,161	$ 177

(a) The maximum potential undiscounted future payments represent notional amounts of derivatives qualifying as guarantees.

We determine the payment/performance risk associated with each type of guarantee described below based on the probability that we could be required to make the maximum potential undiscounted future payments shown in the preceding table. We use a scale of low (0-30% probability of payment), moderate (31-70% probability of payment) or high (71-100% probability of payment) to assess the payment/performance risk, and have determined that the payment/performance risk associated with each type of guarantee outstanding at June 30, 2012, is low.

Standby letters of credit. KeyBank issues standby letters of credit to address clients financing needs. These instruments obligate us to pay a specified third party when a client fails to repay an outstanding loan or debt instrument or fails to perform some contractual nonfinancial obligation. Any amounts drawn under standby letters of credit are treated as loans to the client; they bear interest (generally at variable rates) and pose the same credit risk to us as a loan. At June 30, 2012, our standby letters of credit had a remaining weighted-average life of 3.0 years, with remaining actual lives ranging from less than one year to as many as eleven years.

Recourse agreement with FNMA. We participate as a lender in the FNMA Delegated Underwriting and Servicing program. FNMA delegates responsibility for originating, underwriting, and servicing mortgages, and we assume a limited portion of the risk of loss during the remaining term on each commercial mortgage loan that we sell to FNMA. We maintain a reserve for such potential losses in an amount that we believe approximates the fair value of our liability. At June 30, 2012, the outstanding commercial mortgage loans in this program had a weighted-average remaining term of six years, and the unpaid principal balance outstanding of loans sold by us as a participant was $3.0 billion. As shown in the preceding table, the maximum potential amount of undiscounted future payments that we could be required to make under this program is equal to approximately one-third of the principal balance of loans outstanding at June 30, 2012. If we are required to make a payment, we would have an interest in the collateral underlying the related commercial mortgage loan; any loss we incur could be offset by the amount of any recovery from the collateral.

Return guarantee agreement with LIHTC investors. KAHC, a subsidiary of KeyBank, offered limited partnership interests to qualified investors. Partnerships formed by KAHC invested in low-income residential rental properties that qualify for federal low income housing tax credits under Section 42 of the Internal Revenue Code. In certain partnerships, investors paid a fee to KAHC for a guaranteed return that is based on the financial performance of the property and the property s confirmed LIHTC status throughout a fifteen-year compliance period. Typically, KAHC fulfills these guaranteed returns by distributing tax credits and deductions associated with the specific properties. If KAHC defaults on its obligation to provide the guaranteed return, KeyBank is obligated to make any necessary payments to investors. No recourse or collateral is available to offset our guarantee obligation other than the underlying income stream from the properties and the residual value of the operating partnership interests.

As shown in the previous table, KAHC maintained a reserve in the amount of $55 million at June 30, 2012, which we believe will be sufficient to cover estimated future obligations under the guarantees. The maximum exposure to loss reflected in the table represents undiscounted future payments due to investors for the return on and of their investments. A majority of these payments are due and payable within the next twelve months.

These guarantees have expiration dates that extend through 2018, but KAHC has not formed any new partnerships under this program since October 2003. Additional information regarding these partnerships is included in Note 9 (Variable Interest Entities).

Written put options. In the ordinary course of business, we write interest rate caps and floors for commercial loan clients that have variable and fixed rate loans, respectively, with us and wish to mitigate their exposure to changes in interest rates. At June 30, 2012, our written put options had an average life of 1.8 years. These instruments are considered to be guarantees, as we are required to make payments to the counterparty (the commercial loan client) based on changes in an underlying variable that is related to an asset, a liability, or an equity security that the client holds (i.e., the commercial loan client). We are obligated to pay the client if the applicable benchmark interest rate is above or below a specified level (known as the strike rate). These written put options are accounted for as derivatives at fair value, as further discussed in Note 7 (Derivatives and Hedging Activities). We typically mitigate our potential future payment obligations by entering into offsetting positions with third parties.

Written put options where the counterparty is a broker-dealer or bank are accounted for as derivatives at fair value but are not considered guarantees since these counterparties typically do not hold the underlying instruments. In addition, we are a purchaser and seller of credit derivatives, which are further discussed in Note 7.

Default guarantees. Some lines of business participate in guarantees that obligate us to perform if the debtor (typically a client) fails to satisfy all of its payment obligations to third parties. We generally undertake these guarantees for one of two possible reasons: either the risk profile of the debtor should provide an investment return, or we are supporting our underlying investment in the debtor. The terms of these default guarantees range from less than one year to as many as seven years; some default guarantees do not have a contractual end date. Although no collateral is held, we would receive a pro rata share should the third party collect some or all of the amounts due from the debtor.

Other Off-Balance Sheet Risk

Other off-balance sheet risk stems from financial instruments that do not meet the definition of a guarantee as specified in the applicable accounting guidance, and from other relationships.

Liquidity facilities that support asset-backed commercial paper conduits. At June 30, 2012, we did not have any liquidity facilities remaining outstanding with any unconsolidated third-party commercial paper conduit. The liquidity facility, which expired during the second quarter of 2012, obligated us to provide aggregate funding of up to a certain amount in the event that a credit market disruption or other factors prevented the conduit from issuing commercial paper.

Indemnifications provided in the ordinary course of business. We provide certain indemnifications, primarily through representations and warranties in contracts that we execute in the ordinary course of business in connection with loan sales and other ongoing activities, as well as in connection with purchases and sales of businesses. We maintain reserves, when appropriate, with respect to liability that reasonably could arise as a result of these indemnities.

Intercompany guarantees. KeyCorp and certain of our affiliates are parties to various guarantees that facilitate the ongoing business activities of other affiliates. These business activities encompass issuing debt, assuming certain lease and insurance obligations, purchasing or issuing investments and securities, and engaging in certain leasing transactions involving clients.

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13. 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 Dodd-Frank Act changes the regulatory capital standards that apply to BHCs by requiring the phase-out of the treatment of trust preferred securities and cumulative preferred securities as Tier 1 eligible capital. This three-year phase-out period, which commences January 1, 2013, ultimately will require us to treat our mandatorily redeemable trust preferred securities as Tier 2 capital. On June 12, 2012, the Federal Reserve, the FDIC, and the OCC jointly announced three notices of proposed rulemaking (each an NPR) that would revise and replace the agencies current capital rules in a manner consistent with implementing the final framework for strengthening international capital and liquidity regulation (Basel III) adopted by the Basel Committee on Banking Supervision (the Basel Committee). One NPR proposes rules implementing the phase-out of trust preferred securities as Tier 1 capital, consistent with the Dodd-Frank Act, as part of the implementation of Basel III. A more thorough discussion of current rulemaking underway in the U.S. to implement Basel III is in the Supervision and Regulation portion of this report.

As of June 30, 2012, the trust preferred securities issued by the KeyCorp capital trusts represent $339 billion or 3.5% of our total qualifying Tier 1 capital, net of goodwill. During the quarter, the announcement of the redemptions of the trust preferred securities issued by KeyCorp Capital VII and KeyCorp Capital X resulted in such securities no longer qualifying as Tier 1 capital. On July 12, 2012, we completed the redemption in full of the securities issued by KeyCorp Capital VII and X, with an aggregate liquidation preference of $707 million.

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

dollars in millions		Trust Preferred Securities, Net of Discount (a)		Common Stock		Principal Amount of Debentures, Net of Discount (b)	Interest Rate of Trust Preferred Securities and Debentures (c)	Maturity of Trust Preferred Securities and Debentures
June 30, 2012								
KeyCorp Capital I	**$**	**156**	**$**	**6**	**$**	**162**	**1.208 %**	**2028**
KeyCorp Capital II		**116**		**4**		**120**	**6.875**	**2029**
KeyCorp Capital III		**151**		**4**		**155**	**7.750**	**2029**
KeyCorp Capital VII[e]		**189**		**5**		**194**	**5.700**	**2035**
KeyCorp Capital X [d], [e]		**589**				**589**	**8.000**	**2068**
Total	**$**	**1,201**	**$**	**19**	**$**	**1,220**	**6.616 %**	
December 31, 2011	$	1,206	$	19	$	1,225	6.610 %	
June 30, 2011	$	1,912	$	26	$	1,935	6.570 %	

(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 $155 million at June 30, 2012, $160 million at December 31, 2011, and $121 million at June 30, 2011. See Note 7 (Derivatives and Hedging Activities) for an explanation of fair value hedges.

(b) We have the right to redeem these debentures: (i) in whole or in part, on or after July 1, 2008 (for debentures owned by KeyCorp Capital I); March 18, 1999 (for debentures owned by KeyCorp Capital II); and July 16, 1999 (for debentures owned by KeyCorp Capital III). If the debentures purchased by KeyCorp Capital I are redeemed before they mature, the redemption price will be the principal amount, plus any accrued but unpaid interest. If the debentures purchased by KeyCorp Capital II or KeyCorp Capital III are redeemed before they mature, the redemption price will be the greater of: (a) the principal amount, plus any accrued but unpaid interest or (b) the sum of the present values of principal and interest payments discounted at the Treasury Rate (as defined in the applicable indenture), plus 20 basis points (25 basis points or 50 basis points in the case of redemption upon either a tax event or a capital treatment event for KeyCorp Capital III), plus any accrued but unpaid interest. When debentures are redeemed in response to tax or capital treatment events, the redemption price for KeyCorp Capital II and KeyCorp Capital III generally is slightly more favorable to us. The principal amount of debentures shown above includes adjustments related to hedging with financial instruments totaling $155 million at June 30, 2012, $160 million at December 31, 2011, and $118 million at June 30, 2011.

(c) The interest rates for the trust preferred securities issued by KeyCorp Capital II, KeyCorp Capital III, KeyCorp Capital VII, and KeyCorp Capital X are fixed. KeyCorp Capital I has a floating interest rate equal to three-month LIBOR plus 74 basis points that reprices quarterly. The total interest rates are weighted-average rates.

(d)

In connection with the issuances of these trust preferred securities, KeyCorp entered into a replacement capital covenant. On April 16, 2012, KeyCorp commenced a consent solicitation from the holders of record as of April 10, 2012, of the outstanding 5.70% trust preferred securities of KeyCorp Capital VII to terminate the Replacement Capital Covenant, dated as of February 27, 2008, as amended (the RCC) by KeyCorp in favor of and for the benefit of each Covered Debt holder (as defined in such RCC). On April 27, 2012, KeyCorp announced that, effective as of April 26, 2012, a majority of the holders of record of the trust preferred securities in liquidation amount of KeyCorp Capital VII consented to terminate the RCC. Pursuant to the terms of the consent solicitation, the termination of the RCC became effective on April 26, 2012.

(e) On June 12, 2012, KeyCorp announced the redemption, in full, of 5.70% trust preferred securities of KeyCorp Capital VII and 8.000% enhanced trust preferred securities of KeyCorp Capital X. On July 12, 2012, KeyCorp completed such redemptions.

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14. Employee Benefits

Pension Plans

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

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

in millions	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Interest cost on PBO	**$ 12**	$ 14	**$ 24**	$ 28
Expected return on plan assets	**(18)**	(20)	**(36)**	(40)
Amortization of losses	**4**	3	**8**	6
Net pension cost	**$ (2)**	$ (3)	**$ (4)**	(6)

Other Postretirement Benefit Plans

We sponsor a retiree healthcare plan in which all employees age 55 with five years of service (or employees age 50 with 15 years of service who are terminated under conditions that entitle them to a severance benefit) are eligible to participate. Participant contributions are adjusted annually. Key may provide a subsidy towards the cost of coverage for certain employees hired before 2001 with a minimum of 15 years of service at the time of termination. We also maintain a death benefit plan that provides a death benefit for a very limited number of (i) former Key employees who retired from their employment with Key prior to 1994; (ii) former Key employees who elect a grandfathered pension benefit under the KeyCorp Cash Balance Pension Plan; and (iii) Key employees who otherwise were provided a historical death benefit at the time of their termination. The death benefit plan is noncontributory. We use separate VEBA trusts to fund the healthcare plan and the death benefit plan.

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

in millions	Three months ended June 30, 2012	2011	Six months ended June 30, 2012	2011
Interest cost on APBO	**$ 1**	$ 1	**$ 2**	$ 2
Expected return on plan assets	**(1)**	(1)	**(2)**	(2)
Net postretirement benefit cost				

The Patient Protection and Affordable Care Act and Education Reconciliation Act of 2010, which were both signed into law in March 2010, changed the tax treatment of federal subsidies paid to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. As a result of these laws, these subsidy payments become taxable in tax years beginning after December 31, 2012. The accounting guidance applicable to income taxes requires the impact of a change in tax law to be immediately recognized in the period that includes the enactment date. The changes to the tax law regarding these subsidies did not affect us as we did not have a deferred tax asset recorded for Medicare Part D subsidies received.

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15. Shareholders Equity

Comprehensive Capital Plan

On January 9, 2012, we submitted to the Federal Reserve and provided to the OCC under the annual CCAR process our 2012-2013 Comprehensive Capital Plan. At its March 2012 meeting, our Board authorized the purchase in the open market or through privately negotiated transactions of up to $312 million of our Common Shares. This authorization was expressly in addition to any amounts remaining under preexisting authority. Pursuant to our 2012 capital plan submitted to the Federal Reserve as part of CCAR and not objected to by the Federal Reserve, KeyCorp had authority to purchase up to $344 million of our Common Shares, including $312 million for general repurchase and up to $32 million for repurchase in connection with employee elections under our compensation and benefit programs.

During the second quarter of 2012, we completed $82 million of Common Share repurchases from shareholders on the open market, and $3 million of Common Share repurchases from employees in connection with employee elections under our compensation and benefit programs, pursuant to this plan. Following completion of these repurchases, we have remaining authority to repurchase up to $259 million of our Common Shares, including up to $230 million for general repurchase and up to $29 million for repurchase in connection with employee elections under our compensation and benefit programs. Our existing repurchase program does not have an expiration date. Common Share repurchases under the current authorization are expected to be executed through the first quarter of 2013.

Repurchase of TARP CPP Preferred Stock, Warrant and Completion of Equity and Debt Offerings

During the first half of 2011, we completed the repurchase of the $2.5 billion of Series B Preferred Stock and corresponding warrant issued to the U.S. Treasury Department. As a result of the repurchase, we recorded a $49 million one-time deemed dividend in the first quarter of 2011 related to the remaining difference between the repurchase price and the carrying value of the preferred shares at the time of repurchase. On April 20, 2011 we repurchased the warrant directly from the U.S. Treasury for $70 million. Beginning with the second quarter of 2011, the repurchase resulted in the elimination of quarterly dividends of $31 million and discount amortization of $4 million, or $140 million on an annual basis, related to these preferred shares. In total, we paid $2.867 billion to the U.S. Treasury during the investment period in the form of dividends, principal and repurchase of the warrant, resulting in a return to the U.S. Treasury of $367 million above the initial investment of $2.5 billion on November 14, 2008.

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16. Line of Business Results

The specific lines of business that comprise each of the major business segments (operating segments) are described below.

Key Community Bank

Key Community Bank serves individuals and small to mid-sized businesses through its 14-state branch network.

Individuals are provided branch-based deposit and investment products, personal finance services and loans, including residential mortgages, home equity, and various types of installment loans. In addition, financial, estate and retirement planning, and asset management services are offered to assist high-net-worth clients with their banking, trust, portfolio management, insurance, charitable giving, and related needs.

Small businesses are provided deposit, investment and credit products, and business advisory services. Mid-sized businesses are provided products and services that include commercial lending, cash management, equipment leasing, investment and employee benefit programs, succession planning, access to capital markets, derivatives, and foreign exchange.

Key Corporate Bank

Real Estate Capital and Corporate Banking Services consists of two business units, Real Estate Capital and Corporate Banking Services.

Real Estate Capital is a national business that provides construction and interim lending, permanent debt placements and servicing, equity and investment banking, and other commercial banking products and services to developers, brokers and owner-investors. This unit deals primarily with nonowner-occupied properties (i.e., generally properties in which at least 50% of the debt service is provided by rental income from nonaffiliated third parties). Real Estate Capital emphasizes providing clients with finance solutions through access to the capital markets.

Corporate Banking Services provides cash management, interest rate derivatives, and foreign exchange products and services to clients served by both the Key Community Bank and Key Corporate Bank groups. Through its Public Sector and Financial Institutions businesses, Corporate Banking Services also provides a full array of commercial banking products and services to government and not-for-profit entities and community banks. A variety of commercial payment products are provided through the Enterprise Commercial Payments Group.

Equipment Finance meets the equipment financing needs of companies worldwide and provides equipment manufacturers, distributors and resellers with financing options for their clients. Lease financing receivables and related revenues are assigned to other lines of business (primarily Institutional and Capital Markets and Commercial Banking) if those businesses are principally responsible for maintaining the relationship with the client.

Institutional and Capital Markets**,** through its KeyBanc Capital Markets unit, provides commercial lending, treasury management, investment banking, derivatives, foreign exchange, equity and debt underwriting and trading, and syndicated finance products and services to large corporations and middle-market companies.

Institutional and Capital Markets, through its Victory Capital Management unit, also manages or offers advice regarding investment portfolios for a national client base, including corporations, labor unions, not-for-profit organizations, governments and individuals. These portfolios may be managed in separate accounts, common funds or the Victory family of mutual funds.

Other Segments

Other Segments consist of Corporate Treasury, our Principal Investing unit and various exit portfolios.

Reconciling Items

Total assets included under Reconciling Items primarily represent the unallocated portion of nonearning assets of corporate support functions. Charges related to the funding of these assets are part of net interest income and are allocated to the business segments through noninterest expense. Reconciling Items also includes intercompany eliminations and certain items that are not allocated to the business segments because they do not reflect their normal operations.

The table on the following pages shows selected financial data for our two major business segments for the three- and six- month periods ended June 30, 2012 and June 30, 2011. This table is accompanied by supplementary information for our Key Corporate Bank business segment.

The information was derived from the internal financial reporting system we use to monitor and manage our financial performance. GAAP guides financial accounting, but there is no authoritative guidance for management accounting the way we use our judgment and experience to make reporting decisions. Consequently, the line of business results we report may not be comparable to line of business results presented by other companies.

The selected financial data are based on internal accounting policies designed to compile results on a consistent basis and in a manner that reflects the underlying economics of the businesses. In accordance with our policies:

- Net interest income is determined by assigning a standard cost for funds used or a standard credit for funds provided based on their assumed maturity, prepayment and/or repricing characteristics.

- Indirect expenses, such as computer servicing costs and corporate overhead, are allocated based on assumptions regarding the extent to which each line of business actually uses the services.

- The consolidated provision for loan and lease losses is allocated among the lines of business primarily based on their actual net charge-offs, adjusted periodically for loan growth and changes in risk profile. The amount of the consolidated provision is based on the methodology that we use to estimate our consolidated allowance for loan and lease losses. This methodology is described in Note 1 (Summary of Significant Accounting Policies) under the heading Allowance for Loan and Lease Losses on page 117 in our 2011 Annual Report on Form 10-K.

- Income taxes are allocated based on the statutory federal income tax rate of 35% (adjusted for tax-exempt interest income, income from corporate-owned life insurance and tax credits associated with investments in low-income housing projects) and a blended state income tax rate (net of the federal income tax benefit) of 2.2%.

- Capital is assigned based on our assessment of economic risk factors (primarily credit, operating, and market risk) directly attributable to each line of business.

Developing and applying the methodologies that we use to allocate items among our lines of business is a dynamic process. Accordingly, financial results may be revised periodically to reflect accounting enhancements, changes in the risk profile of a particular business or changes in our organizational structure.

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Three months ended June 30,	Key Community Bank		Key Corporate Bank	
dollars in millions	**2012**	**2011**	**2012**	**2011**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 348**	$ 374	**$ 182**	$ 176
Noninterest income	**189**	185	**210**	215
Total revenue (TE) [(a)]	**537**	559	**392**	391
Provision (credit) for loan and lease losses	**11**	79	**4**	(76)
Depreciation and amortization expense	**9**	10	**13**	19
Other noninterest expense	**467**	437	**205**	188
Income (loss) from continuing operations before income taxes (TE)	**50**	33	**170**	260
Allocated income taxes and TE adjustments	**9**	(1)	**62**	95
Income (loss) from continuing operations	**41**	34	**108**	165
Income (loss) from discontinued operations, net of taxes				
Net income (loss)	**41**	34	**108**	165
Less: Net income (loss) attributable to noncontrolling interests			**3**	1
Net income (loss) attributable to Key	**$ 41**	$ 34	**$ 105**	$ 164
AVERAGE BALANCES [(b)]				
Loans and leases	**$ 27,043**	$ 26,242	**$ 18,532**	$ 17,168
Total assets [(a)]	**30,638**	29,687	**22,715**	21,468
Deposits	**48,253**	47,719	**12,409**	10,195
OTHER FINANCIAL DATA				
Net loan charge-offs [(b)]	**$ 50**	$ 79	**$ 9**	$ 29
Return on average allocated equity [(b)]	**5.73 %**	4.22 %	**23.61 %**	28.26 %
Return on average allocated equity	**5.73**	4.22	**23.61**	28.26
Average full-time equivalent employees [(c)]	**8,757**	8,504	**2,257**	2,191

Six months ended June 30,	Key Community Bank		Key Corporate Bank	
dollars in millions	**2012**	**2011**	**2012**	**2011**
SUMMARY OF OPERATIONS				
Net interest income (TE)	**$ 701**	$ 752	**$ 369**	$ 362
Noninterest income	**365**	371	**424**	434
Total revenue (TE) [(a)]	**1,066**	1,123	**793**	796
Provision (credit) for loan and lease losses	**13**	90	**17**	(97)
Depreciation and amortization expense	**19**	19	**26**	39
Other noninterest expense	**914**	874	**423**	396
Income (loss) from continuing operations before income taxes (TE)	**120**	140	**327**	458
Allocated income taxes and TE adjustments	**21**	25	**119**	168
Income (loss) from continuing operations	**99**	115	**208**	290

Income (loss) from discontinued operations, net of taxes											
Net income (loss)		**99**			115		**208**			290	
Less: Net income (loss) attributable to noncontrolling interests							**3**				
Net income (loss) attributable to Key	**$**	**99**			115	**$**	**205**			290	
AVERAGE BALANCES [b]											
Loans and leases	**$**	**26,830**			26,277	**$**	**18,558**			17,421	
Total assets [a]		**30,416**			29,713		**22,789**			21,607	
Deposits		**48,011**			47,912		**11,982**			10,736	
OTHER FINANCIAL DATA											
Net loan charge-offs [b]	**$**	**99**		$	155	**$**	**34**		$	104	
Return on average allocated equity [b]		**6.82**	**%**		7.11	%	**22.30**	**%**		23.78	%
Return on average allocated equity		**6.82**			7.11		**22.30**			23.78	
Average full-time equivalent employees [c]		**8,738**			8,441		**2,256**			2,173	

(a) Substantially all revenue generated by our major business segments is derived from clients that reside in the United States. Substantially all long-lived assets, including premises and equipment, capitalized software, and goodwill held by our major business segments, are located in the United States.

(b) From continuing operations.

(c) The number of average full-time equivalent employees has not been adjusted for discontinued operations.

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Other Segments		Total Segments		Reconciling Items		Key	
2012	2011	2012	2011	2012	2011	2012	2011
$ 12	$ 13	$ 542	$ 563	$ 2	$ 7	$ 544	$ 570
87	55	486	455	(1)	(1)	485	454
99	68	1,028	1,018	1	6	1,029	1,024
6	(10)	21	(7)		(1)	21	(8)
2	5	24	34	35	35	59	69
19	20	691	645	(36)	(34)	655	611
72	53	292	346	2	6	294	352
16	9	87	103	(24)	(3)	63	100
56	44	205	243	26	9	231	252
				10	(9)	10	(9)
56	44	205	243	36		241	243
2	2	5	3			5	3
$ 54	$ 42	$ 200	$ 240	$ 36	$	$ 236	$ 240
$ 3,804	$ 4,985	$ 49,379	$ 48,395	$ 67	$ 59	$ 49,446	$ 48,454
26,862	28,965	80,215	80,120	705	1,266	80,920	81,386
510	801	61,172	58,715	(109)	(174)	61,063	58,541
$ 18	$ 26	$ 77	$ 134			$ 77	$ 134
31.57 %	20.82 %	15.02 %	15.12 %	2.20 %	1.13 %	9.00 %	10.45 %
31.57	20.82	15.02	15.12	3.05		9.40	10.07
6	23	11,020	10,718	4,435	4,631	15,455	15,349

Other Segments		Total Segments		Reconciling Items		Key	
2012	2011	2012	2011	2012	2011	2012	2011
$ 27	$ 46	$ 1,097	$ 1,160	$ 6	$ 14	$ 1,103	$ 1,174
176	115	965	920	(8)	(9)	957	911
203	161	2,062	2,080	(2)	5	2,060	2,085
33	(35)	63	(42)		(6)	63	(48)
5	10	50	68	69	75	119	143
40	44	1,377	1,314	(79)	(76)	1,298	1,238
125	142	572	740	8	12	580	752
24	32	164	225	(20)	(7)	144	218
101	110	408	515	28	19	436	534
				5	(20)	5	(20)
101	110	408	515	33	(1)	441	514
2	11	5	11			5	11
$ 99	$ 99	$ 403	$ 504	$ 33	$ (1)	$ 436	$ 503

$	**3,997**	$	5,139	**$**	**49,385**	$	48,837	**$**	**53**	$	44	**$**	**49,438**	$	48,881
	26,723														